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

Annual Report 2015

CONTENTS

DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Acting in Concert Agreement"	an agreement entered into by Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy and dated 28 April 2014
"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
"AGM"	an annual general meeting of the Company to be held at Deqing Hall, 5th Floor, Moganshan Hotel*, Deqing, Zhejiang, PRC on Thursday, 30 June 2016 10:00 a.m.
"Articles of Association"	the articles of association of the Company
"Bangni Fiber"	Zhejiang Bangni Refractory Fiber Co., Ltd. (浙江邦尼耐火纖維有限公司)
"Board" or "Board of Directors"	the board of directors of the Company
"Board of Supervisors"	the board of supervisors of the Company
"Chief Financial Officer"	the chief financial officer of the Company
"Chief Financial Controller"	the chief financial controller of the Company
"Companies Ordinance"	the Companies Ordinance. Chapter 622 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, the H Shares of which are listed on the Hong Kong Stock Exchange (stock code: 6866)
"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 Yin, Mr. Yu Youqiang, Deqing Yintian, Mr. Shen Haiying, Dingsheng Investment and Mr. Zhang Jianming
"CSRC"	the China Securities Regulatory Commission
"Deqing Yintian"	Deqing Yintian Equity Investment and Management Company Limited* (德清銀天股權投資管理有限公司)
"Dingsheng Investment"	Deqing Dingsheng Equity Investment and Management Company Limited* (德清鼎盛股權投資管理有限公司)
"Director(s)"	the director(s) of the Company
"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
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Jinhui Micro-finance"	Deqing Jinhui Micro-finance Company Limited* (德清金匯小額貸款有限公司)
"Listing Rules"	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Listing Date"	13 January 2015, the day on which the H Shares became listed on the Hong Kong Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"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
"PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to "China" and the "PRC" do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
"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
"Puhua Energy"	Deqing Puhua Energy Company Limited* (德清普華能源有限公司)
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"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)
"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 (關於印發中小企業劃型標準規定的通知)
"Supervisor(s)"	the supervisor(s) of the Company
"Zuoli Holdings"	Zuoli Holdings Group Company Limited* (佐力控股集團有限公司)

* for identification purposes only

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yu Yin *(Chairman)*
Mr. Zheng Xuegen *(Vice Chairman)*
Mr. Yang Sheng *(Vice Chairman)*
(appointed on 7 April 2016)
Mr. Hu Haifeng

Non-executive Director

Mr. Pan Zhongmin (formerly known as Pan Zhongming)

Independent non-executive Directors

Mr. Ho Yuk Ming, Hugo
Mr. Jin Xuejun
Ms. Huang Lianxi

SUPERVISORS

Ms. Shen Yamin *(Chairman)*
Mr. Dai Shengqing
Mr. Wang Peijun

AUDIT COMMITTEE

Mr. Ho Yuk Ming, Hugo *(Chairman)*
Mr. Jin Xuejun
Ms. Huang Lianxi

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Jin Xuejun *(Chairman)*
Mr. Yu Yin
Mr. Ho Yuk Ming, Hugo

NOMINATION COMMITTEE

Ms. Huang Lianxi *(Chairman)*
Mr. Jin Xuejun
Mr. Yu Yin

LOAN APPROVAL COMMITTEE

Mr. Hu Haifeng *(Chairman)*
Ms. Fei Xiaofang
Mr. Huang Chenjiang
Ms. Xia Jing
Ms. Hu Fangfang

COMPANY SECRETARY

Ms. Ho Wing Yan *(ACIS, ACS(PE))*

AUTHORISED REPRESENTATIVES

Mr. Yu Yin
Ms. Ho Wing Yan

REGISTERED OFFICE

No. 57–67, Dongsheng Road
Lan Se Gang Wan
Wukang Town
Deqing
Zhejiang
PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 57–67, Dongsheng Road
Lan Se Gang Wan
Wukang Town
Deqing
Zhejiang
PRC

CORPORATE INFORMATION (CONTINUED)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

33rd Floor, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKER

Bank of China Deqing Gui Hua Cheng Sub-branch
Nos. 245 to 253 South Quyuan Road
Wukang Town, Deqing County
Zhejiang Province
PRC

COMPANY'S WEBSITE

www.zlkcxd.cn

STOCK CODE

6866

AUDITOR

KPMG
Certified Public Accountants

LEGAL ADVISERS TO OUR COMPANY

ONC Lawyers *(as to Hong Kong laws)*
Dacheng Law Offices *(Dacheng Shanghai) (as to PRC laws)*

COMPLIANCE ADVISER

China Galaxy International Securities (Hong Kong) Co., Limited

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

FINANCIAL SUMMARY

The following is a summary of assets and liabilities of the Company as at 31 December 2011, 2012, 2013, 2014 and 2015 and of the results of the Company for the period from 18 August 2011 (date of establishment) to 31 December 2011, and for each of the years ended 31 December 2012, 2013, 2014 and 2015.

RESULTS	**Period from 18 August 2011 (date of establishment) to 31 December 2011**	**Year ended 31 December**			
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015** **RMB'000**
Interest income	7,820	70,973	90,789	160,237	**212,128**
Profit before taxation	492	35,176	68,970	124,575	**196,961**
Income tax	(157)	(8,939)	(17,354)	(31,176)	**(50,442)**
Profit and total comprehensive income for the year	335	26,237	51,616	93,399	**146,519**
Profit attributable to the equity shareholders of the Company	335	26,237	51,616	93,399	**146,086**
ASSETS AND LIABILITIES					
Total assets	228,607	481,708	776,748	1,177,417	**1,522,570**
Total liabilities	28,272	132,244	187,268	206,538	**126,977**
Total equity	200,335	349,464	589,480	970,879	**1,395,593**

Note:

The summary of the results of the Company for the period from 18 August 2011 (date of establishment) to 31 December 2011, and for each of the years ended 31 December 2012 and 2013 and the summary of the assets, liabilities and equity of the Company as at 31 December 2011, 2012 and 2013 have been extracted from the Prospectus.

CHAIRMAN'S STATEMENT

The Company was listed on the Hong Kong Stock Exchange on 13 January 2015, a step which we considered to be full of opportunities and challenges. We have achieved some progress in the previous periods, but it would take more perseverance and efforts to achieve results satisfying to our investors in the future.

On behalf of the Board, I would like to express my gratitude to our Shareholders and stakeholders who have been supporting and following the development of the Company, and all of our employees who have been striving for the best results for the Company. On behalf of the Company, I would like to present the results of the Company in 2015 to all of you.

In 2015, we formally stepped into Internet financing business through obtaining approval from the Financial Work Office of Zhejiang Province to cooperate with micro e-commerce online money lending platforms. The approval allowed us to provide loans not exceeding RMB500,000 per unit in aggregate with an annualized interest rate of up to 15% to online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products within the scope of up to 30% of our aggregate loan scale.

In 2015, our offline businesses were expanded to Huzhou, Zhejiang, the PRC. Meanwhile, we further enlarged the scale of our offline businesses by acquiring Jinhui Micro-finance which is also located in Deqing, Huzhou, Zhejiang, the PRC, and setting up operation outlets in two villages and towns of the county.

In 2015, the size of our loan portfolio reached RMB1,455.369 million while the net interest income was RMB203.951 million, representing a growth of 37.1% as compared with the same period last year, and the net profit was RMB146.519 million, representing an year-on-year growth of 56.9%.

During the past year, we have improved our operating results, widened our business scope and further increased our market penetration rate in Deqing. However, we are fully aware of the challenges arising from the competition in the industry and we will work hard to enhance our trustworthiness to our clients and attract more clients by offering more loan products catering for their needs and services of even better quality to our clients on an ongoing basis.

With further recognition of the role of micro-finance companies and the implementation of the national development strategy of "Internet +", we are set to benefit from the new economic and regulatory policies. Year 2016 will be the new commencement of our transformation and strategic layout. We will proactively grasp the new development opportunities and continuously improve our major competitiveness, in order to lay a solid foundation for the continuous growth of results.

Zuoli Kechuang Micro-finance Company Limited
Yu Yin
Chairman

22 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

We commenced our business in Huzhou City, Zhejiang Province, the PRC, and our main business is conducted in Deqing County, Huzhou City. Deqing has experienced robust economic development and growth recently. The county was placed among the nation's top one hundred 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 cultivate the local financial services sector. In addition, Deqing has been designated as a "technological outstanding county (科技強縣)", a "financial innovation demonstration county (金融創新示範縣)" as well as the "financial back-office base in Yangtze River Delta (長三角金融後台基地)" by the Zhejiang provincial government.

Competition within the microfinance industry in Zhejiang is extremely intense. As of 31 December 2015, the number of microfinance companies in Zhejiang reached 344. The average registered capital per microfinance company amounted to RMB199 million while the average loan balance per microfinance company amounted to RMB232 million.

The microfinance industry in Deqing has also seen rapid growth. As of 31 December 2015, there were 5 microfinance companies in Deqing. The accumulated aggregate amount of loans granted in the year reached RMB4,622 million, of which the annual accumulated aggregate amount of loan granted by the Group accounted for approximately 53%, and the loan balance at the end of the year reached RMB2,518 million, of which the loan balance of the Group at the end of the year accounted for approximately 58%.

BUSINESS OVERVIEW

As of 31 December 2015, we were the largest licensed microfinance company in Zhejiang Province in terms of registered capital, according to the Financial Work Office of the People's Government of Zhejiang Province. We are dedicated to providing loans services to customers in Huzhou, Zhejiang and online retailers nationwide, by providing financing solutions with flexible terms through quick and comprehensive loan assessment and approval processes.

Our key customers primarily consist of customers engaged in AFR (三農), SMEs as well as online retailers in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products.

Due to the increase in our capital base and strong demand for financing by our customers, our gross outstanding loans increased substantially from RMB1,155.2 million as of 31 December 2014 to RMB1,455.4 million as of 31 December 2015. The following table sets out our registered capital, gross outstanding loans and advances to customers, and leverage ratio as of the dates indicated:

	As of 31 December	
	2015	2014
Registered capital (RMB in thousands)	**1,180,000**	880,000
Gross outstanding loans and advances to customers (RMB in thousands)	**1,455,369**	1,155,225
Leverage ratio(1)	**1.23**	1.31

Note:

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

For the years ended 31 December 2014 and 2015, our average interest rates for loans were 15.6% and 15.6%, respectively. Our unchanged average interest rate during the aforesaid period was primarily due to our continuous focus on serving customers with stronger repayment ability in 2015, of whom we charged relatively lower interest rate.

We primarily served SMEs, microenterprises, individuals in the agricultural, industrial and service sectors and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products in Huzhou. For the years ended 31 December 2014 and 2015, we served over 460 and 1,545 customers, respectively. During the aforesaid period, our loan customers increased dramatically primarily due to the approval granted by the Financial Work Office of Zhejiang Province to cooperate with micro e-commerce online money lending platforms on 13 April 2015, which allowed us to provide “online loans” not exceeding RMB500,000 per unit in aggregate with an annualized interest rate of up to 15% to online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products within the scope of up to 30% of our aggregate loan scale.

The following table sets out the number of our loans by size as of the dates indicated:

	As of 31 December	
	2015	2014
Up to RMB500,000	**1,777**	289
Over RMB500,000 to RMB1 million (inclusive)	**61**	151
Over RMB1 million to RMB5 million (inclusive)	**207**	291
Over RMB5 million	**60**	117
Total number of outstanding loans and advances to customers	**2,105**	848

For the years ended 31 December 2014 and 2015, 51.9% and 87.3% of our loan contracts were of the amount of up to RMB1 million, respectively. In our loan contracts, the proportion of loans with a maximum amount of RMB1 million increased drastically during the aforementioned period, which was mainly due to the newly commenced online loans business in the year of 2015, of which the amount of loan per unit is restricted to be within RMB500,000.

For the years ended 31 December 2014 and 2015, the total amount of loans we granted were RMB2,388.8 million and RMB2,427.2 million, respectively.

Loan Portfolio by Security

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

	As of 31 December			
	2015		2014	
	RMB'000	**%**	RMB'000	%
Unsecured loans[1]	**91,144**	**6.3**	450	0.0
Guaranteed loans	**1,283,653**	**88.2**	1,098,330	95.1
Collateralized loans	**79,972**	**5.5**	55,445	4.8
Pledged loans	**600**	**0.0**	1,000	0.1
Total gross outstanding loans and advances to customers	**1,455,369**	**100.0**	1,155,225	100.0

Note:

(1) Our unsecured loans are usually of small amounts, with short terms, and granted to customers who have good credit histories upon assessing the risks involved in the loans during our credit evaluation process. The increase in our unsecured loans during the aforesaid period was mainly due to the newly commenced online loans in the year of 2015 which were primarily unsecured loans of small amounts and short terms.

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

	As of 31 December			
	2015		2014	
	RMB'000	**%**	RMB'000	%
Due within three months	**13,340**	**0.9**	29,970	2.6
Due between three months and six months	**156,371**	**10.8**	208,250	18.0
Due between six months and one year	**1,259,117**	**86.5**	915,135	79.2
Due more than one year	**26,541**	**1.8**	1,870	0.2
Total gross outstanding loans and advances to customers	**1,455,369**	**100.0**	1,155,225	100.0

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

	As of 31 December			
	2015		2014	
	RMB'000	**%**	RMB'000	%
Up to RMB500,000	**169,961**	**11.7**	45,445	3.9
Over RMB500,000 to RMB1 million (inclusive)	**55,320**	**3.8**	76,580	6.7
Over RMB1 million to RMB5 million (inclusive)	**601,488**	**41.3**	363,200	31.4
Over RMB5 million	**628,600**	**43.2**	670,000	58.0
Total gross outstanding loans and advances to customers	**1,455,369**	**100.0**	1,155,225	100.0

Note:

(1) The proportion of loans up to RMB1 million rose in 2015, which was primarily due to the newly commenced online loans business in the year of 2015, of which the amount of loan per unit was restricted to within RMB500,000.

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 People's Bank of China on 2 April 2002.

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

	As of 31 December			
	2015		2014	
	RMB'000	**%**	RMB'000	%
Normal	**1,261,417**	**86.7**	961,260	83.2
Special mention	**158,880**	**10.9**	179,000	15.5
Substandard	**18,748**	**1.3**	14,420	1.2
Doubtful	**12,595**	**0.9**	370	0.1
Loss	**3,729**	**0.2**	175	0.0
Total gross outstanding loans and advances to customers	**1,455,369**	**100.0**	1,155,225	100.0

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 out our key operating data as of the dates or for the years indicated:

	As of 31 December	
	2015	2014
	RMB'000	RMB'000
Impaired loan ratio[1]	**2.4%**	1.3%
Balance of impaired loans	**35,072**	14,965
Gross outstanding loans and advances to customers	**1,455,369**	1,155,225
Provision coverage ratio[2]	**208%**	306.3%
Allowances for impairment losses[3]	**72,954**	45,831
Balance of impaired loans	**35,072**	14,965
Provision for impairment losses ratio[4]	**5.0%**	4.0%
Balance of overdue loans	**15,742**	545
Gross outstanding loans and advances to customers	**1,455,369**	1,155,225
Overdue loan ratio[5]	**1.08%**	0.05%

Notes:

(1) Represents the balance of impaired loans divided by 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 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 loans increased from RMB15.0 million as of 31 December 2014 to RMB35.1 million as of 31 December 2015, mainly due to (i) the impaired loans incurred by Jinhui Finance, which we acquired in 2015, before the acquisition; and (ii) the overall economic downturn in 2015. The balance of our overdue loans increased from RMB0.5 million as of 31 December 2014 to RMB15.7 million as of 31 December 2015, mainly due to the overdue loans incurred by Jinhui Finance, before the acquisition.

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

	As of 31 December	
	2015	2014
	RMB'000	RMB'000
Unsecured loans	**373**	—
Guaranteed loans	**5,102**	—
Collateralized loans	**10,267**	545
Pledged loans	**—**	—
Total overdue loans	**15,742**	545

We had overdue loans of RMB0.5 million and RMB15.7 million as of 31 December 2014 and 2015, respectively, accounting for 0.05% and 1.08% of our outstanding loans as of the same dates. As at 22 March 2016, RMB440,000 among the overdue loans as of 31 December 2015 was recovered.

FINANCIAL OVERVIEW

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 out the breakdown of our net interest income by source for the years indicated:

	2015	2014
	RMB'000	RMB'000
Interest income from		
Loans and advances to customers	**210,732**	159,954
Cash at banks	**1,396**	283
Total interest income	**212,128**	160,237
Interest and commission expenses from		
Borrowings from banks	**(8,105)**	(11,320)
Borrowings from non-bank financial institutions	**—**	(99)
Bank charges	**(72)**	(45)
Total interest and commission expenses	**(8,177)**	(11,464)
Net interest income	**203,951**	148,773

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 reporting 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. For the years ended 31 December 2014 and 2015, our average interest rates for loans were 15.6% and 15.6%, respectively. Our unchanged average interest rate during the reporting period was primarily due to our continuous focus on serving customers with stronger repayment ability in 2015, of which we charged relatively lower interest rate.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions, as well as bank charges, were RMB11.5 million and RMB8.2 million for the years ended 31 December 2014 and 2015, respectively. We incur interest expenses primarily on the interest payment on bank borrowings. Such borrowings were principally used to expand our loan business. Our interest-bearing borrowings amounted to RMB175.0 million and RMB100.0 million as of 31 December 2014 and 31 December 2015, respectively. During the reporting period, our interest-bearing borrowings decreased mainly because we were listed on the main board of the Hong Kong Stock Exchange on 13 January 2015 and funds were raised for releasing loans, and therefore our short-term demand for financing was reduced. In 2015, our bank borrowings bore interest rates ranging from 5.655% to 7.2% per annum. In 2014, our bank borrowings bore interest rates ranging from 6.9% to 7.8% per annum, representing a decrease in annual interest rates of borrowings during the aforesaid period. The total bank charges were RMB44,508 and RMB71,601 in 2014 and 2015, respectively.

Our net interest income for the years ended 31 December 2014 and 2015 were RMB148.8 million and RMB204 million, respectively.

Other net income

Our other net income for the years ended 31 December 2014 and 31 December 2015 were RMB20.0 million and RMB41.3 million, respectively. Our other net income consists of government grants and exchange gains. For the years ended 31 December 2014 and 31 December 2015, we received government grants of RMB19.8 million and RMB35.2 million, respectively. The subsidies in relation to enterprise income tax and business tax granted by government are usually paid to us in the second half of the next year.

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 the difference between loss estimates and actual loss.

In 2014 and 2015, our impairment losses were RMB21.8 million and RMB6.0 million, respectively.

Administrative expenses

Our administrative expenses mainly include: (i) business tax and surcharge; (ii) staff costs, such as salaries, bonuses and allowances paid to employees, equipment insurance and other benefits; (iii) office expenditures and travel expenses; (iv) operating lease charges; (v) depreciation and amortization expenses; (vi) consulting and professional service fees; and (vii) other expenses, including business development expenses, advertising expenses and miscellaneous expenses, such as stamp duty, conference fees and labor protection fees. The table below sets out the components of our administrative expenses by nature for the years indicated:

	2015 **RMB'000**	2014 RMB'000
Business tax and surcharge	**11,431**	8,967
Staff costs	**8,209**	3,590
Office expenditures and travel expenses	**3,696**	2,625
Operating lease charges	**818**	515
Depreciation and amortization expenses	**1,179**	695
Consulting and professional service fees	**7,459**	2,250
Business development expenses	**947**	269
Advertising expenses	**2,827**	2,186
Others	**5,780**	1,332
Total administrative expenses	**42,346**	22,429

Our business tax and surcharge mainly include: (i) business tax; (ii) city construction and maintenance tax; and (iii) education surcharge. For the years ended 31 December 2014 and 2015, our business tax and surcharge were RMB9.0 million and RMB11.4 million, respectively, accounting for 40.0% and 27.0% of our total administrative expenses, respectively.

Our staff costs accounted for 16.0% and 19.4% of total administrative expenses for the years ended 31 December 2014 and 2015, respectively. In addition to basic salary, we also offered performance-based bonus to incentivize our customer relationship managers. For the years ended 31 December 2014 and 2015, we paid RMB0.1 million and RMB0.2 million, respectively, to our employees as performance-based bonus, accounting for 0.06% and 0.1% of our interest income during the same period. Our staff costs increased from RMB3.6 million for the year ended 31 December 2014 to RMB8.2 million for the year ended 31 December 2015, which was mainly attributable to: (i) the Company has hired additional employees in 2015, including new senior management and customer relationship managers due to the expansion of our loan business; and (ii) the existing staff from Jinhui Micro-finance, which we acquired in 2015.

Our consulting and professional service fees accounted for 10.0% and 17.6% of our total administrative expenses for the years ended 31 December 2014 and 2015, respectively. Our consulting and professional service fees increased from RMB2.3 million for the year ended 31 December 2014 to RMB7.5 million for the year ended 31 December 2015, which was mainly due to the acquisition of Jinhui Micro-finance in 2015 and on-going professional fees after listing.

Income tax

Our income taxes for the years ended 31 December 2014 and 2015 were RMB31.2 million and RMB50.4 million, respectively, and our effective tax rates were 25.0% and 25.6%, respectively.

Profit for the year

As a result of the foregoing, we had profit for the year of RMB93.4 million and RMB146.5 million in 2014 and 2015, respectively.

Liquidity and capital resources

The H Shares were listed on the main board of the Stock Exchange on the Listing Date with net proceeds from the offering by the Company of approximately HK$338.4 million (after deducting underwriting fees and related expenses).

We have in the past met our working capital and other capital requirements primarily related to extending loans and other working capital requirements mainly by equity contributions from the Shareholders, bank borrowings and cash flows from operations. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity level 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, domestic corporate bonds intended to be issued 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.

WORKING CAPITAL MANAGEMENT

Cash flows

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

	2015 **RMB'000**	2014 RMB'000
Cash and cash equivalents at the beginning of year	**24,488**	81,100
Net cash generated from/(used in) operating activities	**93,056**	(474,134)
Net cash (used in)/generated from investing activities	**(241,287)**	149,463
Net cash used in financing activities	**206,316**	268,059
Net increase/(decrease) in cash and cash equivalents	**58,085**	(56,612)
Effect on the change of exchange rate	**(1)**	—
Cash and cash equivalents at the end of year	**82,572**	24,488

Net cash generated from/(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 record equity contributions from Shareholders and bank borrowings as cash generated from financing activities, we classify the deployment of such cash in granting new loans to customers as cash used in operating activities and, as a result, we typically report net cash used in operating activities. 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.

Net cash generated from operating activities in 2015 was RMB93.1 million. Our net cash from operating activities reflect the extension of loans to customers, comprising of: (i) our profit before tax of RMB197.0 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB6.0 million, depreciation and amortization of RMB1.2 million, exchange gains of RMB6.2 million and interest expenses of RMB8.1 million; (ii) the effect of changes in working capital, primarily including an increase in loans and advances to customers of RMB67.2 million as well as an increase in interests receivable and other assets of RMB1.0 million, mainly due to our enlarged business scale as a result of our fund raising by listing in January 2015, and a decrease in accruals and other payables of RMB12.3 million, mainly as a result of the government grants of RMB13.0 million we recorded during the first half of 2014 and included into other net income in the first half of 2015; and (iii) income tax paid of RMB32.5 million.

Net cash (used in)/generated from investing activities

For the year ended 31 December 2015, our net cash used in investing activities was RMB241.3 million. Our net cash outflow for investing activities mainly consisted of (i) investment amount paid for the acquisition for Jinhui Micro-finance of RMB238.3 million; (ii) rental expenses and property's decoration fees paid of RMB2.0 million; and (iii) amount paid for equipment purchase of RMB1.1 million. Our cash inflow from investing activities was RMB0.1 million of cash from disposal of equipment.

Net cash generated from financing activities

For the year ended 31 December 2015, our net cash generated from financing activities was RMB206.3 million. Our net cash flow from financing activities consisted of equity contributions of RMB313.8 million and new bank borrowings of RMB100.0 million, which was partially offset by: (i) repayment of borrowings of RMB175.0 million; (ii) cash paid for other financing activities of RMB23.9 million, which was professional fees in relation to the Company's listing of its H Shares on the Stock Exchange; and (iii) interests paid of RMB8.6 million.

Cash management

As our business primarily relies on our available cash, we normally set aside a sufficient amount of cash for general working capital needs, such as administrative payment of interests on bank borrowings, and use substantially all of the remainder for granting loans to our customers. During the year ended 31 December 2014 and 2015, the total cash and cash equivalents amounted to RMB24.5 million and RMB82.6 million, respectively, which we consider to be sufficient based on our actual working capital needs.

Selected items of the statement of financial position

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

	As of 31 December	
	2015	2014
	RMB'000	RMB'000
Assets		
Cash and cash equivalents	**82,572**	24,488
Interest receivables	**14,852**	9,795
Loans and advances to customers	**1,382,415**	1,109,394
Fixed assets	**4,162**	1,636
Goodwill	**18,005**	—
Deferred tax assets	**16,966**	15,182
Other assets	**3,598**	16,922
Total assets	**1,522,570**	1,177,417
Liabilities		
Interest-bearing borrowings	**100,000**	175,000
Accruals and other payables	**7,249**	21,798
Current tax	**19,728**	9,740
Total liabilities	**126,977**	206,538
Net assets	**1,395,593**	970,879
Capital and Reserves		
Share Capital	**1,180,000**	880,000
Reserves	**208,177**	90,879
Total equity attributable to the equity shareholders of the Company	**1,388,177**	970,879
Non-controlling interests	**7,416**	—
Total interests	**1,395,593**	970,879

Cash and cash equivalents

Cash and cash equivalents are primarily our cash at banks. The following table sets out our cash and cash equivalents as of the dates indicated:

Items	As of 31 December	
	2015	2014
	RMB'000	RMB'000
Cash in hand	**2**	—
Cash at banks	**82,398**	24,488
Other monetary fund	**172**	—
Cash and cash equivalents	**82,572**	24,488

The increase in our cash and cash equivalents from RMB24.5 million as of 31 December 2014 to RMB82.6 million as of 31 December 2015 was primarily due to the positive cash inflow from operating activities mainly due to an increased profit before taxation of RMB197.0 million during 2015 as compared to RMB124.6 million in 2014 and the positive cash inflow from financing activities was mainly due to net proceeds from the listing of the Company on the Stock Exchange in 2015, partially offset by the increased cash outflow used in the investing activities in 2015, for the payment of the acquisition of Jinhui Micro-finance in 2015.

Interest receivables

Our interest receivables increased from RMB 9.8 million as of 31 December 2014 to RMB 14.9 million as of 31 December 2015, mainly in line with the increase in our outstanding loans resulting from our enlarged capital base and business scale.

Loans and advances to customers

Our loans and advances to customers reflect the total balance of our loan portfolio. The following table sets out our gross loans and advances to customers by customer type as of the dates indicated:

	As of 31 December	
	2015	2014
	RMB'000	RMB'000
Loans to enterprises[1]	**708,934**	699,580
Retail loans	**643,174**	455,645
Internet loans	**103,261**	—
Total gross loans and advances to customers	**1,455,369**	1,155,225
Allowances for impairment losses		
— collective	**(54,932)**	(40,380)
— individual	**(18,022)**	(5,451)
Total allowances for impairment losses	**(72,954)**	(45,831)
Net loans and advances to customers	**1,382,415**	1,109,394

Note:

(1) Include loans to sole proprietors.

As of 31 December 2015, the growth of our gross loans and advances to customers amounted to RMB1,455.4 million, mainly because of our increased capital base (including the consolidation of the loan portfolio of the Jinhui Micro-finance, which was acquired in 2015).

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 out the maturity profile of the original term of our gross loans and advances to customers as of the dates indicated:

	As of 31 December	
	2015	2014
	RMB'000	RMB'000
Due within three months	**13,340**	29,970
Due between three months and six months	**156,371**	208,250
Due between six months and one year	**1,259,117**	915,135
Due more than one year	**26,541**	1,870
Gross loans and advances to customers	**1,455,369**	1,155,225

We had overdue loans of RMB0.5 million and RMB15.7 million at 31 December 2014 and 2015, respectively, accounting for 0.05% and 1.08% of our gross loans and advances to customers as of the same dates.

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

	As of 31 December	
	2015	2014
	RMB'000	RMB'000
Unsecured loans[(1)]	**91,144**	450
Guaranteed loans	**1,283,653**	1,098,330
Collateralized loans	**79,972**	55,445
Pledged loans	**600**	1,000
Loans and advances portfolio to customers	**1,455,369**	1,155,225

Note:

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

The majority of our loans were guaranteed loans during the years ended 31 December 2014 and 2015. Our guaranteed loans accounted for 95.1% and 88.2% of our gross loans and advances to customers as of 31 December 2014 and 2015, respectively.

OTHER ASSETS

The following table sets out the breakdown of other assets by their nature as of the dates indicated:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Initial public offering service fees	**—**	16,237
Prepaid income tax[1]	**1,808**	—
Prepayment	**1,693**	—
Others	**97**	685
Total other assets	**3,598**	16,922

Note:

(1) Prepaid income tax represents the over-paid income tax by Jinhui Micro-finance at 31 December 2015.

Accruals and other payables

The following table sets out a breakdown of our accruals and other payables by nature as of the dates indicated:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Conditional government grants	**—**	13,000
Initial public offering service fees payable	**—**	4,475
Business tax and surcharges and other taxation payable	**1,750**	1,286
Accrued staff cost	**1,748**	1,147
Interest payable	**61**	532
Other payables	**3,690**	1,358
Total accruals and other payables	**7,249**	21,798

The decrease in our accruals and other payables during the aforesaid period was mainly due to the receipt of conditional government grants of RMB13.0 million from the People's Government of Deqing county by the Company in 2014. The condition was that the Company shall be listed on the Stock Exchange by the end of 2016. As the Company was listed on the main board of the Stock Exchange on 13 January 2015, the above conditional government grants were recognised as other net income for the year ended 31 December 2015.

Current tax

Our current tax, which represent payables of our income tax, were RMB9.7 million and RMB19.7 million, respectively, as of 31 December 2014 and 2015.

Capital commitments

We did not have any capital commitment as of 31 December 2015.

The following tables set out certain key financial ratios as of the dates indicated:

	As of 31 December	
	2015	2014
Return on weighted average equity	**11.3%**	11.0%
Return on average assets[(1)]	**10.8%**	9.6%

Note:

(1) Represents profit for the year attributable to equity shareholders of the Company divided by average balance of total assets as of the beginning and end of a year.

	As of 31 December	
	2015	2014
Gearing ratio[(1)]	**1.3%**	15.5%

Note:

(1) Represents total interest-bearing borrowings, less cash and cash equivalents, divided by total interests attributable to equity shareholders of the Company as of the end of a year.

Our return on weighted average equity increased from 11.0% in 2014 to 11.3% in 2015. Our average return on assets increased from 9.6% in 2014 to 10.8% in 2015, which was due to the increase in profit attributable to equity shareholders of the Company at a faster rate than total assets in 2015 compared to 2014. Although the fund raised by listing on the main board of the Stock Exchange on 13 January 2015 increased our capital base, profit growth still exceeded the increase in capital base.

Related party transactions

During the year ended 31 December 2015, we leased a property from Mr. Yu Yin, an executive Director and the chairman of the Board, and paid rental of approximately RMB515,000; we leased a property from the younger sister of Mr. Yu Yin and paid rental of RMB110,000. Such related party transactions constitute the continuing connected transactions under Chapter 14A of the Listing Rules and were fully exempted from Shareholders' approval, annual review and all disclosure requirements.

Our Directors confirm that the leases were conducted on an arm's length basis and were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

During the reporting period, certain of our Shareholders and Directors, including Puhua Energy, had guaranteed some of our bank borrowings. The balance of bank borrowings amounted to RMB100.0 million as of 31 December 2015. Such related party transaction constituted the continuing connected transaction under Chapter 14A of the Listing Rules and was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

INDEBTEDNESS

Borrowings

The following table sets out our outstanding borrowings as of the dates indicated:

	As of 31 December	
	2015	2014
	RMB'000	RMB'000
Bank borrowings	**100,000**	175,000
Total borrowings	**100,000**	175,000

Our bank borrowings were the borrowings required for our business expansion.

OFF-BALANCE SHEET ARRANGEMENTS

As of 31 December 2015, we did not have any off-balance sheet arrangements.

EMPLOYMENT AND EMOLUMENTS

As of 31 December 2015, the Company had 60 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance, etc.

PROSPECTS

With the establishment of China Microfinance Companies Association (中國小額貸款公司協會) and confirmation of the *Classification Standards of Financial Enterprises* (《金融業企業劃型標準規定》), the financing intermediary role played by microfinance companies in the PRC is increasingly being recognized by the relevant authorities and the microfinance industry as a whole is expected to benefit from the regulatory aspect.

In terms of our major market of offline business, Deqing was placed among the nation's top one hundred 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, thus helping 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. Therefore, we expect Deqing to continue to experience stable economy and provide us with a relatively conducive market environment to grow our market share as we continue to introduce innovative loan products, broaden business channels, enhance our market penetration and increase our competitive advantages by utilizing the advantage of our capital base.

At the same time, with our acquisition of Jinhui Micro-finance and establishment of two operation outlets in villages and towns in Deqing county which would help expand our business in Deqing, our market penetration rate of AFR (三農) customers would be further increased.

Besides, on 13 April 2015, 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) has granted the approval to the Company to cooperate with micro e-commerce online money lending platforms (the "**Cooperation**"), which enables the Company to provide loans in aggregate representing not more than 30% of the Company's funding available for the granting of loans, to online retailers engaging in the business of lifestyle products, agricultural products, cultural supplies and industrial goods. The aggregate amount of loans granted to any of these online retailers shall not exceed RMB500,000, and the relevant annualized interest rate shall not exceed 15%. The Cooperation marks a positive development of the Company and the official commencement of our online finance business. The Board is of the view that such expansion in the scope of business would enable the Company to diversify its revenue stream, open up a channel for the provision of lending services to online retailers across the country, break through its current geographical limitation in Huzhou and reduce its reliance on the Huzhou market.

In January 2016, the Company commenced a strategic cooperation with "Yuanbaopu (元寶鋪)" (official company name as Zhejiang Electronic Finance Data Technology Company Limited* (浙江電融數據技術有限公司)) ("Yuanbaopu"), a finance big data service platform. The parties will establish an exclusive partnership within Zhejiang Province, Jiangsu Province and Shanghai City, focusing on development of pure credit-based micro-finance loan business. The parties intend to, including but not limited to, commence a strategic cooperation in the fields of data collection, customer referral, products operation model, research and development of new products, enhancement of brand competitiveness and identification of strategic targets, etc.

We may expand the geographical coverage of our offline business through continuous strategic acquisition of other micro-finance companies or financial institutions to the extent permitted by policies.

USE OF PROCEEDS

The H Shares of the Company became listed on the main board of the Stock Exchange on 13 January 2015 with net proceeds from the global offering of approximately HK$338.4 million (after deducting underwriting commissions and related expenses). The net proceeds are expected to be used for expanding the capital base of our loan business.

The Directors intend to apply the net proceeds in the manner as set out in the prospectus of the Company dated 30 December 2014.

* *for identification purposes only*

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Yu Yin (俞寅), aged 29, is our executive Director and the chairman of the Board. 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. Yu Youqiang (俞有強) who is 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 that 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 was 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 courses in 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.

As at the date of this annual report, Mr. Yu was interested in 44.89% of the Domestic Shares.

Mr. Zheng Xuegen (鄭學根), aged 51, 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* (浙江占字光電股份有限公司)), 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 Zhejiang Jolly Pharmaceutical Co., Ltd. (浙江佐力藥業股份有限公司) ("**Jolly Pharmaceutical**"). In January 2008, Mr. Zheng served as a director and the deputy general manager of Jolly Pharmaceutical where he mainly carried out 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 (stock code: 300181) 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).

As at the date of this annual report, Mr. Zheng was interested in 0.34% of the Domestic Shares.

Mr. Yang Sheng (楊晟), aged 41, is our executive Director, vice chairman of the Board and chief operating officer. He is mainly responsible for the internet financial business of the Company and the expansion of branches as well as the development of new products and new businesses. Before joining the Company, Mr. Yang accumulated ample experience on credit and management in Bank of China. From February 1994 to June 2003, Mr. Yang worked at Huzhou City Branch of Bank of China. Mr. Yang served as the deputy head of security department in Huzhou City Branch of Bank of China from June 2003 to July 2007. Mr. Yang served as the head of security department in Huzhou City Branch of Bank of China from July 2007 to August 2010. Mr. Yang served as the head of general management department in Huzhou City Branch of Bank of China from January 2010 to August 2010. Mr. Yang was assigned to Anji County Branch of Bank of China as the president from August 2010 to January 2014. Mr. Yang was the president of Deqing County Branch of Bank of China from January 2014 to August 2015.

Mr. Hu Haifeng (胡海峰), aged 50, 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* (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.

As at the date of this annual report, Mr. Hu was interested in 1.21% of the Domestic Shares.

Non-Executive Director

Mr. Pan Zhongmin (潘忠敏) (formerly known as Pan Zhongming (潘忠明)), aged 42, 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.* (杭州美寶爐窰工程有限公司), 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.

Mr. Pan 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).

As at the date of this annual report, Mr. Pan was interested in 1.34% of the Domestic Shares.

Independent Non-Executive Directors

Mr. Ho Yuk Ming, Hugo (何育明), aged 44, 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 of the Board.

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 date of this annual report, 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	March 2004 to September 2004
		financial controller	March 2004 to December 2004
V1 Group Limited (formerly known as Yanion International Holdings Limited, Vodone Limited)	82	executive director	January 2005 to February 2006
		qualified accountant	April 2005 to March 2006
United Energy Group Limited	467	accounting manager	September 2006 to March 2010
		company secretary	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
Future Bright Mining Holdings Limited	2212	chief financial officer	April 2014 till now
		company secretary	September 2014 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 parttime basis from October 2012 to February 2014.

Mr. Jin Xuejun (金雪軍), aged 57, was appointed as our independent non-executive Director on 28 April 2014. Mr. Jin is also a member of each of the audit committee, nomination committee of the Board and a chairman of the remuneration and appraisal committee of the Board.

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 PRC and the Academic Degree Committee under the State Council* (國務院學位委員會).

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, Xinhu 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. Since August 2015, Mr. Jin has been an independent non-executive director of Changjiang & Jinggong Steel Building Group Co., Ltd. (長江精工鋼結構 (集團) 股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600496).

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 53, was appointed as our independent non-executive Director on 28 April 2014. Ms. Huang is also a member of the audit committee of the Board and a chairman of the nomination committee of the Board.

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. In July 2015, Ms. Huang was appointed as the vice-president of the Lawyers Association of Zhejiang* (浙江省律師協會).

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.

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 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 an one-year course in United Kingdom Practical Training Scheme for Lawyers of the People's Republic of China at the 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

Mr. Dai Shengqing (戴勝慶), aged 48, 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 a 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)).

Mr. Wang Peijun (王培軍), aged 42, 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 (沈婭敏), aged 34, 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.

As at the date of this annual report, Ms. Shen was interested in 1.54% of the Domestic Shares.

SENIOR MANAGEMENT

Ms. Xia Jing (夏靜), aged 41, joined the Company as our manager of the 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. 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 Subbranch, 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).

Ms. Fei Xiaofang (費曉芳), aged 47, joined the Company as the deputy general manager in June 2015, and is mainly responsible for monitoring the risk management and overall risk control systems of the Company. Prior to joining the Company, Ms. Fei has accumulated ample experience on credit duties and management in the Agricultural Bank of China, a company whose shares are currently listed on the Shanghai Stock Exchange (stock code: 601288) and the Hong Kong Stock Exchange (stock code: 1288). From March 2002 to March 2005, Ms. Fei obtained a degree majoring in Law in the Open University of China. Ms. Fei served as the accountant, customer relationship manager and accounting supervisor in Deqing branch of the Agricultural Bank of China from August 1990 to April 2007. From May 2007 to March 2009, Ms. Fei was transferred as the accounting supervisor in Wukang branch in Deqing of the Agricultural Bank of China. From April 2009 to March 2013, Ms. Fei became the president of Zhongxing Road branch of the Agricultural Bank of China in Deqing, and was later re-designated to be the president of Wukang branch in Deqing of the Agricultural Bank of China from April 2013 to May 2015.

Ms. Hu Fangfang (胡芳芳), aged 35, joined the Company as the Chief Financial Controller on 1 July 2015. Ms. Hu is responsible for coordinating and guiding the financial management, budget management, accounting and auditing and internal control aspects of the Company. She will formulate the Company's financial strategies, organize and implement important internal audit activities, coordinate fund raising activities for working capital of the Company's operation and prepare the Company's financial planning. She will also monitor the financial affairs of subsidiaries, assist senior management in implementing business strategies and operation plans to achieve the Company's operation and management targets and development goals. Prior to joining the Company, Ms. Hu has built up extensive experience on financial management. From July 2004 to November 2006, Ms. Hu worked in Zhejiang Jiangong Real Estate Development Group Company Limited (浙江建工房地產開發集團有限公司) and engaged in financial duties. From November 2006 to December 2008, she worked in Zhejiang Dongfang Accountants Company Limited (浙江東方會計師事務所有限公司) and engaged in on-site audit works. From November 2008 to June 2015, Ms. Hu served as a manager of Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)).

Ms. Hu graduated from Zhejiang Institute of Finance and Economics (浙江財經學院) (currently known as Zhejiang University of Finance and Economics (浙江財經大學)) with a bachelor of management degree (major in accounting) in 2004. Ms. Hu was admitted as a certified public accountant of the Chinese Institute of Certified Public Accountants in 2007.

Mr. Huang Chenjiang (黃晨江), aged 42, joined our Predecessor Company as a 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 the 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. Ping Tiehan (平鐵漢), aged 50, possessed tertiary academic qualification. He joined the Company as the Deputy General Manager in October 2015, and is mainly responsible for internet financial business. Before joining the Company, Mr. Ping has worked in the Industrial and Commercial Bank of China, a company whose shares are currently listed on the Shanghai Stock Exchange (stock code: 601398) and the Hong Kong Stock Exchange (stock code: 1398), and obtained over 20 years of experience on management with extensive experience on management of micro-finance companies. From December 1985 to August 2000, Mr. Ping worked in Deqing Sub-branch and Wukang office of the Industrial and Commercial Bank of China. Mr. Ping was the person-in-charge of the savings counter of Deqing branch of the Industrial and Commercial Bank of China from August 2000 to December 2008, and was then re-designated as the deputy general manager of personal finance business department from December 2008 to August 2009. From August 2009 to September 2015, Mr. Ping served as the general manager of Deqing Dehua Micro-Finance Company Limited (德清德華小額貸款有限公司).

* for identification purposes only

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report together with the audited financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the PRC and is domiciled in Hong Kong and has its registered office in the PRC at No. 57–67, Dongsheng Road, Lan Se Gang Wan, Wukang Town, Deqing, Zhejiang, PRC and its principal place of business in Hong Kong at 33rd Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong. The Company's principal place of business is in the PRC.

PRINCIPAL ACTIVITIES

We provide financing solutions to 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 as well as online retailers operating in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products in order to meet their short-term financing needs.

BUSINESS REVIEW

A fair review of the Group's business and its outlook are set out in the sections of Chairman's Statement and Management Discussion and Analysis. Certain financial key performance indicators are provided in the section of Financial Summary. Important events affecting the Group are provided under "Events after the reporting period"

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the SFO for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance (Cap.57 of the Laws of Hong Kong) and ordinances relating to occupational safety for the interest of employees of the Group.

The Group respects the environment and is committed to minimizing its carbon footprints as a socially responsible enterprise in Hong Kong. Carbon footprint is defined as the total amount of direct and indirect emissions of Green House Gases (GHGs) expressed in terms of the equivalent amount of Carbon Dioxide of (CO_2) emission. Non-hazardous wastes produced from the Group mainly consist of used paper such as office papers and marketing materials. To minimize the impact of carbon footprints on the environment, the Group implements the following practices to use paper efficiently:

- Duplex printing is set as the default mode for most network printers;
- Employees are reminded to practice photocopying wisely;
- Employees are encouraged to use both sides of paper;
- Paper waste is recycled instead of being directly disposed of in landfills;
- Paper is separated from other waste for easier recycling; and
- Boxes and trays are placed beside photocopiers as containers to collect single-sided paper for reuse purpose.

Electricity consumption is identified as having an adverse impact on the environment and natural resources. A typical commercial building uses more energy for lighting than for other electric equipment. The Group is determined to reduce energy consumption and implement conservation practices to reduce the effect of carbon footprint. Air conditioning and light zone arrangements reduce unnecessary electricity usage; employees enforce good practices in maintenance of lighting and electric equipment to ensure they are kept in good and proper condition to maximize efficiency.

KEY RISK FACTORS

The following lists out the key risks and uncertainties facing the Group.

Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees, Customers and Suppliers

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year under review.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2015, interest income from our five largest customers accounted for less than 30% of our net interest income for the year.

At no time during the year have the Directors, their close associates or any Shareholder (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Company's five largest customers.

As a micro-finance company, the Company does not have any supplier.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the latest five financial years are set out on page 6 of this annual report. This summary does not form part of the audited financial statements.

FINANCIAL STATEMENTS

The profit of the Company for the year ended 31 December 2015 and the state of the Company's and the Company's affairs as at that date are set out in the financial statements on pages 57 to 112 of this annual report.

A discussion and analysis of the Company's performance during the year and material factors underlying its results and financial position are set out in the Management Discussion and Analysis section of this annual report.

FIXED ASSETS

Details of movements in fixed assets of the Company during the year ended 31 December 2015 are set out in note 15 to the financial statements.

RESERVES

Details of movements in reserves of the Company during the year are set out in the Consolidated Statement of Changes in Equity section of this annual report, of which details of reserves available for distribution to Shareholders are set out in note 20 to the financial statements.

DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.14 per share for the year ended 31 December 2015 (2014: RMB nil).

TAX REDUCTION AND EXEMPTION (FOR H SHAREHOLDERS)

Non-resident corporate shareholders

Pursuant to the requirements of the Enterprise Income Tax Law of the People's Republic of China and its implementation rules effective from 1 January 2008, the Company shall withhold and pay the enterprise income tax at the tax rate of 10% for the distribution of dividend to non-resident corporate Shareholders named in the H Share register.

Non-resident individual shareholders

Pursuant to the requirements of the Notice on Certain Issues on the Policies of Individual Income Tax by the State Administration of Taxation and the Ministry of Finance (Cai Shui Zi [1994] No. 20) (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字[1994] 20號)), foreign individuals are temporarily exempted from individual income tax on the dividends and bonuses received from foreign invested enterprises. The Company was approved by the Department of Commerce of Zhejiang Province to convert into a foreign invested joint stock company, and thus the Company is not required to withhold nor pay the individual income tax on the distribution of dividend to non-resident individual Shareholders named in the H Share register.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholder's entitlement to attend and vote at the AGM, the H Share register of members of the Company will be closed from Tuesday, 31 May 2016 to Thursday, 30 June 2016, both days inclusive, during which period no share transfers will be registered. In order to qualify for attending and voting at the AGM, holders of H Shares of the Company shall lodge transfer documents with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 30 May 2016.

The payment of the proposed final dividend is subject to the approval of the Shareholders at the AGM. For the purpose of determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 7 July 2016 to Tuesday, 12 July 2016 (both days inclusive), during which period no transfer of H Shares of the Company will be registered. In order to be entitled to the proposed final dividend, unregistered holders of H Shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 6 July 2016.

CHARITABLE DONATIONS

The Company donated RMB20,000 to help the disadvantaged in the year ended 31 December 2015.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Company as at 31 December 2015 are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in the Consolidated Statement of Changes in Equity section of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to propose new issues to its existing Shareholders in proportion to their shareholdings.

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

The H Shares of the Company were listed on the Stock Exchange on 13 January 2015. The Company has not purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2015.

EQUITY-LINKED AGREEMENTS

Save as the disclosed in this annual report, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

DIRECTORS AND SUPERVISORS

The following table sets forth information concerning the Directors and Supervisors for the year ended 31 December 2015.

Name	Age	Position	Appointment Date
Directors			
Mr. Yu Yin	29	Executive Director and chairman of the Board	28 April 2014
Mr. Zheng Xuegen	51	Executive Director, vice chairman of the Board, deputy general manager and secretary to the Board	28 April 2014
Mr. Hu Haifeng	50	Executive Director and general manager	28 April 2014
Mr. Pan Zhongmin (formerly known as Pan Zhongming)	42	Non-executive Director	8 August 2014
Mr. Ho Yuk Ming, Hugo	44	Independent non-executive Director	28 April 2014
Mr. Jin Xuejun	57	Independent non-executive Director	28 April 2014
Ms. Huang Lianxi	53	Independent non-executive Director	28 April 2014
Mr. Ding Maoguo (resigned on 24 July 2015)	34	Executive Director and Chief Financial Officer	28 April 2014
Supervisors			
Mr. Dai Shengqing	48	Supervisor	8 August 2014
Mr. Wang Peijun	42	Supervisor	8 August 2014
Ms. Shen Yamin	34	Supervisor	28 April 2014

On 24 July 2015, Mr. Ding Maoguo resigned as executive Director and Chief Financial Officer due to his further personal career development. The previous responsibilities of Mr. Ding Maogou as Chief Financial Officer are assumed by Ms. Hu Fangfang, the Chief Financial Controller.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and considers that all of the independent non-executive Directors are independent of the Company.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and senior management of the Company are set out on pages 25 to 32 of this annual report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Except Mr. Yang Sheng has entered into a service contract with the Company in April 2016, each of the Directors and Supervisors has entered into a service contract with the Company in December 2014 and each service contract is for an initial term of three years commencing from the Listing Date.

Save as disclosed above, the Company has not entered, and does not propose to enter, into any service contracts with any of the 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)).

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the Directors and Supervisors are set out in note 7 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year ended 31 December 2015.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2015, the interests or short positions of the Directors, Supervisors and the chief executive in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the SFO which will have 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 he is 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 recorded 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, are as follows:

(i) Interests of the Directors in the shares of our Company

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[(1)]	Percentage in the total issued share capital[(1)]
Yu Yin	Domestic Shares	88,000,000 (L)	Beneficial owner[(2)]	10.00%	7.46%
	Domestic Shares	307,061,040 (L)	Interests held jointly with another person[(2)]	34.89%	26.02%
Zheng Xuegen	Domestic Shares	2,992,000 (L)	Beneficial owner	0.34%	0.25%
Hu Haifeng	Domestic Shares	10,630,400 (L)	Beneficial owner	1.21%	0.90%
Pan Zhongmin	Domestic Shares	11,792,000 (L)	Interest of a controlled Corporation[(3)]	1.34%	1.00%

(ii) Interests of the Supervisor in the shares of our Company

Name of Supervisor	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[(1)]	Percentage in the total issued share capital[(1)]
Shen Yamin	Domestic Shares	13,511,520 (L)	Beneficial owner	1.54%	1.15%

Notes:

(1) The calculation is based on the total number of 1,180,000,000 ordinary shares of the Company in issue as at 31 December 2015, which comprised 880,000,000 Domestic Shares and 300,000,000 H Shares.

(2) On 28 April 2014, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming 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. As such, Mr. Yu Youqiang (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu Yin, Mr. Shen Haiying (by himself and through Dingsheng Investment and Zuoli Holdings), Mr. Zhang Jianming and Puhua Energy together control approximately 33.48% of the total issued share capital in the Company. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming are deemed to be interested in approximately 33.48% of the total issued share capital in the Company.

(3) Mr. Pan Zhongmin holds 75.50% of the equity interest of Bangni Fiber, which in turn holds approximately 1.00% of the total issued share capital in the Company. By virtue of the SFO, Mr. Pan Zhongmin is deemed to be interested in approximately 1.00% of the total issued share capital in the Company.

(4) The letter "L" denotes the person's long position in such securities.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, the persons or corporations who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[1]	Percentage in the total issued share capital[1]
Mr. Yu Youqiang	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[2][3]	44.89%	33.48%
Puhua Energy	Domestic Shares	264,000,000 (L)	Beneficial owner[2]	30.00%	22.37%
	Domestic Shares	131,061,040 (L)	Interests held jointly with another person[2]	14.89%	11.11%
Zuoli Holdings	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[2][4]	44.89%	33.48%
Deqing Yintian	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[2][5]	44.89%	33.48%
Mr. Yu Yin	Domestic Shares	88,000,000 (L)	Beneficial owner[2]	10.00%	7.46%
	Domestic Shares	307,061,040 (L)	Interests held jointly with another person[2]	34.89%	26.02%
Mr. Shen Haiying	Domestic Shares	23,760,000 (L)	Beneficial owner[2]	2.70%	2.01%
	Domestic Shares	371,301,040 (L)	Interests held jointly with another person[2]	42.19%	31.47%
Dingsheng Investment	Domestic Shares	395,061,040 (L)	Interests held jointly with another person[2]	44.89%	33.48%
Mr. Zhang Jianming	Domestic Shares	19,301,040 (L)	Beneficial owner[2]	2.19%	1.64%
	Domestic Shares	375,760,000 (L)	Interests held jointly with another person[2]	42.70%	31.84%
Zhongrong International Trust Co., Ltd.	H Shares	76,920,000 (L)	Beneficial owner	25.64%	6.52%
Mr. Xu Zhenghui	H Shares	34,600,000 (L)	Beneficial owner	11.53%	2.93%
Ms. Qiu Xiaomei	H Shares	34,600,000 (L)	Interest of spouse[6]	11.53%	2.93%
Ms. Duan Min	H Shares	28,840,000 (L)	Beneficial owner	9.61%	2.44%

Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[1]	Percentage in the total issued share capital[1]
Mr. Han Jianmin	H Shares	28,840,000 (L)	Interest of spouse[7]	9.61%	2.44%
Mr. Wei Feng	H Shares	20,928,000 (L)	Beneficial owner	6.98%	1.77%
Ms. Guo Na	H Shares	20,928,000 (L)	Interest of spouse[8]	6.98%	1.77%
Mr. Li Tong	H Shares	15,380,000 (L)	Beneficial owner	5.13%	1.30%
Ms. Zhou Tong	H Shares	15,380,000 (L)	Interest of spouse[9]	5.13%	1.30%

Notes:

(1) The calculation is based on the total number of 1,180,000,000 ordinary shares of the Company in issue as at 31 December 2015, which is comprised of 880,000,000 Domestic Shares and 300,000,000 H Shares.

(2) On 28 April 2014, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming 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. As such, Mr. Yu Youqiang (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu Yin, Mr. Shen Haiying(by himself and through Dingsheng Investment and Zuoli Holdings), Mr. Zhang Jianming and Puhua Energy together control approximately 33.48% of the issued share capital in the Company. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming are deemed to be interested in approximately 33.48% of the issued share capital in the Company.

(3) As Puhua Energy is indirectly controlled by Mr. Yu Youqiang, Mr. Yu Youqiang 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. Yu Youqiang and holds approximately 38.12% 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.

(6) Ms. Qiu Xiaomei is the spouse of Mr. Xu Zhenghui. Under the SFO, Ms. Qiu Xiaomei is deemed to be interested in the same number of Shares in which Mr. Xu Zhenghui is interested.

(7) Mr. Han Jianmin is the spouse of Ms. Duan Min. Under the SFO, Mr. Han Jianmin is deemed to be interested in the same number of Shares in which Ms. Duan Min is interested.

(8) Ms. Guo Na is the spouse of Mr. Wei Feng. Under the SFO, Ms. Guo Na is deemed to be interested in the same number of Shares in which Mr. Wei Feng is interested.

(9) Ms. Zhou Tong is the spouse of Mr. Li Tong. Under the SFO, Ms. Zhou Tong is deemed to be interested in the same number of Shares in which Mr. Li Tong is interested.

(10) The letter "L" denotes the person's long position in such securities.

Save as disclosed above, as at the date of this directors' report, the Directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

CONTRACTS OF SIGNIFICANCE

During the year, there had been no contract of significance between the Company and a controlling shareholder (as defined in the Listing Rules) of the Company.

COMPETING BUSINESS

None of the Directors and their close associates had any interest in any competing business with the Company during the year.

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Zuoli Holdings, Puhua Energy, Mr. Yu Yin, Mr. Yu Youqiang, Deqing Yintian, Mr. Shen Haiying, Dingsheng Investment and Mr. Zhang Jianming (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company from the Listing Date to the date of this report. The independent non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied by each of the controlling shareholders.

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO PURCHASE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Supervisors or their respective spouses or minor children, or were such rights exercised by them, or was the Company or its holding company a party to any arrangements to enable the Directors or Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

RETIREMENT SCHEME

The Company participates in pension scheme organized by the municipal government of Huzhou City, Zhejiang for the Company's employees based in the PRC. Contributions to this retirement plan are set out in note 5 to the financial statements.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Since the Listing Date to the date of this report, the Company complied with all Code Provisions as set out in the Corporate Governance Code ("**CG Code** ") contained in Appendix 14 of the Listing Rules.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2015, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

EVENTS AFTER THE REPORTING PERIOD

The Group proposed a final dividend of RMB0.14 per share for the year ended 31 December 2015.

On 11 December 2015, the Board of the Company approved the proposed issuance of private bonds in the PRC with an aggregate amount not exceeding RMB600.0 million (inclusive), a scale of subsisting balance not exceeding RMB300.0 million (inclusive) at any time, and a maturity of 6 months for each tranche. Subject to the above limit on total amount, the specific tranches of issue and the amount of issue per tranche will depend on market conditions. The interest rate will be determined by reference to the interest rate of private bond issuance in the market under the same conditions over the same period. On 7 April 2016, the above proposed issuance of private bonds was approved by the Shareholders by a special resolution at an extraordinary general meeting of the Company. As at the date of this report, this proposed issuance of private bonds was still subject to the approval of the relevant regulators.

On 7 April 2016, at an extraordinary general meeting of the Company, the Shareholders passed an ordinary resolution electing Mr. Yang Sheng (楊晟) as an executive Director.

CONNECTED TRANSACTION

During the year ended 31 December 2015, there was no connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management the accounting principles and practices adopted by the Company and discussed auditing, risk management and internal control systems and financial report matters including the review of the Company's annual results for the year ended 31 December 2015.

AUDITOR

The financial statements for the year ended 31 December 2015 have been audited by KPMG, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the AGM.

By order of the Board

Yu Yin
Chairman

Hong Kong, 22 March 2016

REPORT OF THE BOARD OF SUPERVISORS

On 8 August 2014, the current session of the Board of Supervisors was established upon the approval of the General Meeting of the Company. The current session of the Board of Supervisors is comprised of three Supervisors, namely Mr. Dai Shengqing, Mr. Wang Peijun and Ms. Shen Yamin.

In the year ended 31 December 2015, for the Company's long term interests and Shareholders' interests, the Board of Supervisors acted in strict compliance with relevant laws, regulations, rules, regulatory documents, the Articles of Association and the Listing Rules and earnestly performed their duties of supervision as to the acts of the Directors and senior management of the Company. The main area of work of the Board of Supervisors in 2015 is summarised as follows:

I. MEETING CONDUCTED BY THE BOARD OF SUPERVISORS

The Board of Supervisors convened three meetings in the year ended 31 December 2015.

II. WORK OF THE BOARD OF SUPERVISORS

The work of the Board of Supervisors mainly comprised of the followings:

1. Inspection over implementation of resolutions of the general meetings

The Board of Supervisors exercised supervision and inspection of the implementation of the resolutions in general meetings by the Board and the senior management of the Company through observation and attendance at the Board meetings and general meetings. The Board of Supervisors is of the opinion that the Directors and senior management of the Company have diligently performed their duties in compliance with resolutions of the general meetings. No violation of any laws or regulations or Articles of Association or any act which jeopardises the interests of the Company or the Shareholders has been found in the performance of the Directors and senior management of the Company.

2. Inspection over legal compliance of the Company's operations

The Board of Supervisors exercised supervision on a regular basis over the legal compliance and rationality of the Company's operation and management in its ordinary Work. It has also exercised supervision over work performance of the Board and senior management of the Company . The Board of Supervisors is of the opinion that, the Company's operation is sound and rational, and is in compliance with all applicable laws, regulations and rules and the Articles of Association. The members of the Board and senior management of the Company have conscientiously and diligently performed their duties, and none of their act would prejudice the interests of the Company or the Shareholders.

3. Inspection over the Company's daily operating activities

The Board of Supervisors exercised supervision over the Company's operating activities. The Board of Supervisors is of the opinion that the Company has a sound internal control system and has made great progress in the formulation and implementation of its internal work procedures, thus effectively controlled its exposure to various operating risks. The Company's operation is in compliance with the PRC laws and regulations and the Articles of Association.

4. Inspection over the Company's financial condition

The Board of Supervisors has verified the Company's 2015 financial statements, supervised and inspected the Company's implementation of relevant financial policies and legislations as well as details on the Company's assets, financial income and expenditure. It is of the opinion that the financial report for 2015 fairly reflected its financial position and operating results.

Looking forward, the Board of Supervisors will continue to carry out its duties in strict compliance with the Articles of Association and the relevant laws and regulations and protect the interests of the Shareholders.

Shen Yamin
Chairman of the Board of Supervisors

Hong Kong, 22 March 2016

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain high standards of corporate governance and protect the interests of its Shareholders in an open manner.

The Board comprises four executive Directors (Mr. Ding Maoguo resigned as an executive Director on 24 July 2015 and Mr. Yang Sheng was appointed as an executive Director on 7 April 2016), one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provisions**") of the CG Code set out in Appendix 14 to the Listing Rules. Throughout the period since the Listing Date, the Company has fully complied with the Code Provisions.

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established four Board committees, being the audit committee (the "**Audit Committee**"), the remuneration and appraisal committee (the "**Remuneration and Appraisal Committee**"), the nomination committee (the "**Nomination Committee**") and the loan approval committee (the "**Loan Approval Committee**") (each a "**Board Committee**" and collectively the "**Board Committees**"), to oversee different areas of the Company's affairs.

The Board currently comprises four executive Directors, namely Mr. Yu Yin, Mr. Zheng Xuegen, Mr Yang Sheng and Mr. Hu Haifeng, one non-executive Director, namely, Mr. Pan Zhongmin, and three independent non-executive Directors, namely, Mr. Ho Yuk Ming, Hugo, Mr. Jin Xuejun and Ms. Huang Lianxi.

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographies of Directors, Supervisors and Senior Management" on pages 25 to 32 in the annual report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company's website.

There is no financial, business, family or other material/relevant relationships among members of the Board.

The Board sets the Company's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, investment policy, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Company's businesses to the executive Directors and members of senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Company, and the training and continuous professional development of Directors and senior management of the Company. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

All Board members have separate and independent access to the Company's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Company's expense upon their request. Since January 2015, all Directors are provided with monthly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary.

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Company. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Company and that he/she is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

In February 2015, the Company, together with its compliance adviser, organized specialized training sessions in relation to the governance of Hong Kong listed companies for each of the Directors. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

A summary of training received by the current Directors for the year ended 31 December 2015 is as follows:

	Types of training	
Name of Directors	**Attending in-house training organized by professional organizations**	**Reading materials updating on new rules and regulations**
Executive Directors		
Yu Yin	✓	✓
Zheng Xuegen	✓	✓
Hu Haifeng	✓	✓
Ding Maoguo (resigned on 24 July 2015)	✓	✓
Non-executive Director		
Pan Zhongmin	✓	✓
Independent Non-executive Directors		
Ho Yuk Ming, Hugo	✓	✓
Jin Xuejun	✓	✓
Huang Lianxi	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE

The position of the chairman of the Board is held by Mr. Yu Yin, who provides leadership and is responsible for the effective functioning and leadership of the Board. Mr. Hu Haifeng has been acting as the chief executive of the Company. He focuses on the Company's business development and daily management and general operations.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of the Shareholders and the Company. They serve actively on the Board and Board Committees to provide their independent and objective views.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

BOARD COMMITTEES

The Board is supported by a number of committees, including the Audit Committee, Nomination Committee, Remuneration and Appraisal Committee and Loan Approval Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. The terms of reference of the Audit Committee, Nomination Committee and the Remuneration and Appraisal Committee are respectively available on the Company's website.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

(i) Audit Committee

The Audit Committee consists of three Directors: Mr. Ho Yuk Ming, Hugo (independent non-executive Director), Mr. Jin Xuejun (independent non-executive Director) and Ms. Huang Lianxi (independent non-executive Director). Mr. Ho Yuk Ming, Hugo, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems and relationship with external auditors of the Company, oversee the audit process and perform other duties and such responsibilities as assigned by the Board. These include reviewing the Company's interim and annual reports.

The Audit Committee has reviewed the financial statements of the Company for the year ended 31 December 2015, including the accounting principles and practices adopted by the Company, report prepared by the external auditors covering major findings in the course of the audit, and selection and appointment of the external auditors.

(ii) Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee comprises three Directors: Mr. Jin Xuejun (independent non-executive Director), Mr. Ho Yuk Ming, Hugo (independent non-executive Director) and Mr. Yu Yin (executive Director). Mr. Jin Xuejun is the chairman of the Remuneration and Appraisal Committee. The principal responsibilities of the Remuneration and Appraisal Committee are to review and make recommendations to the Board on the overall remuneration structure and policy for all Directors and senior management of the Company as well as the specific remuneration packages for the executive Directors and senior management of the Company and on the establishment of a formal and transparent process for developing such remuneration policy. No Director takes part in any discussion on his own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, performance, responsibility, job complexity and the Company's performance are taken into account.

The Remuneration and Appraisal Committee has reviewed the remuneration policy and structure relating to the Directors and senior management of the Company.

(iii) Nomination Committee

The Nomination Committee comprises three Directors: Mr. Yu Yin (executive Director), Ms. Huang Lianxi (independent non-executive Director) and Mr. Jin Xuejun (independent non-executive Director). Ms. Huang Lianxi is the chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee are to review the composition of the Board, including its structure, size and diversity, at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of independent non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy (as defined below), so as to develop and review measurable objectives for the implementing the Board Diversity Policy (as defined below) and to monitor the progress on achieving these objectives.

The Nomination Committee has reviewed the structure, size and composition of the Board and assessed independence of the independent non-executive Directors.

(iv) Loan Approval Committee

The Loan Approval Committee comprises five Directors and senior management of the Company: Mr. Hu Haifeng (executive Director), Ms. Fei Xiaofang (deputy general manager), Mr. Huang Chenjiang (manager of Risk Management Department), Ms. Xia Jing (deputy general manager) and Ms. Hu Fangfang (Chief Financial Controller). Mr. Hu Haifeng is the chairman of the Loan Approval Committee.

The primary functions of the Loan Approval Committee are to determine the risk profile and creditworthiness of potential customers and whether to advance the loan if the amount of loan exceeds RMB1 million.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the Code Provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS

The attendance record of each of the current Directors at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2015 is set out in the table below. The Directors did not authorize any alternate Director to attend Board or Board Committee meetings.

	Attendance/Number of Meetings					
Name of Directors	**Board**	**Nomination Committee**	**Remuneration and Appraisal Committee**	**Audit Committee**	**Loan Approval Committee**	**General Meeting**
Yu Yin	10/10	5/5	1/1	N/A	N/A	1/1
Zheng Xuegen	10/10	N/A	N/A	N/A	32/158	1/1
Hu Haifeng	10/10	N/A	N/A	N/A	158/158	1/1
Pan Zhongmin	10/10	N/A	N/A	N/A	N/A	1/1
Ho Yuk Ming, Hugo	10/10	N/A	1/1	4/4	N/A	1/1
Jin Xuejun	10/10	5/5	1/1	4/4	N/A	1/1
Huang Lianxi	10/10	5/5	N/A	4/4	N/A	1/1
Ding Maoguo (Note)	5/5	N/A	N/A	N/A	92/158	1/1

Note:

Mr. Ding Maoguo has resigned as our executive Director on 24 July 2015.

BOARD PROCEEDINGS

Pursuant to the Articles of Association, the Board is required to hold at least four Board meetings each year, to be convened and hosted by the chairman of the Board. A notice of at least fourteen days shall be dispatched for a regular Board meeting. The notice shall state the time and venue by which the Board meeting will be convened.

The quorum for a Board meeting is the presence of more than half of the total number of Directors. A Director may attend the Board meeting in person, or appoint another Director in writing as his proxy to attend the Board meeting. The secretary to the Board of the Company is responsible for preparing and keeping the minutes of Board meetings and ensuring that such minutes are available for inspection by any Director.

During the year ended 31 December 2015, there were ten Board meetings held and all Directors attended the meetings that they were required to attend.

GENERAL MEETING

During the year ended 31 December 2015, the Company convened one general meeting of the Company held on 30 June 2015. All Directors attended the meetings that they were required to attend.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the "**Board Diversity Policy**") in March 2015 in accordance with the requirement set out in the CG Code. The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

BOARD OF SUPERVISORS

The Board of Supervisors consists of three members. The employee representative supervisor, namely Ms. Shen Yamin, was elected by employees, and the other two supervisors, namely Dai Shengqing and Wang Peijun, were elected by the Shareholders. Each of the supervisors has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date. The functions and duties of the Board of Supervisors include, but are not limited to: reviewing and verifying financial reports; and, if in doubt, appointing certified public accountants and practicing auditors to re-examine the Company's financial information; monitoring the business activities of the Company; supervising the performance of the Directors, the chairman of the Board and other senior management members, and monitoring whether they had acted in violation of the laws, regulations and Articles of Association in the performance of their duties; requesting the Directors, the chairman of the Board and senior management members to rectify actions which are damaging to the Company's interests; and exercising other rights given to them under the Articles of Association.

UPDATE ON DIRECTOR'S INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors are set out below:

- Since October 2015, Mr. Yu Yin was appointed as a director and chairman of the board of directors of Jinhui Micro-finance, a subsidiary of the Company.

- Since October 2015, Mr. Hu Haifeng was appointed as a director of Jinhui Micro-finance.

- Since August 2015, Mr. Zheng Xuegen was appointed as a director of Zuoli Micro-finance Hong Kong International Investment Company Limited (佐力小貸香港國際投資有限公司), a subsidiary of the Company. Since October 2015, Mr. Zheng Xuegen was appointed as a director of Jinhui Micro-finance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for carrying out securities transactions of the Company by the Directors. After specific enquiry with all members of the Board, they have confirmed fully compliance with the relevant standards stipulated in the Model Code since the Listing Date.

COMPANY SECRETARY

The Company has engaged in a service contract with an external service provider, Mr. Yip Kui Wan, who was the company secretary of the Company ("**Mr. Yip**"). Mr. Yu Yin, the chairman of the Board and executive Director of the Company, was the primary corporate contact person of the Company with Mr. Yip.

Being the company secretary of the Company, Mr. Yip played an important role in supporting the Board by ensuring good information flow within the Board and that Board policies and procedures are followed. Mr. Yip was responsible for advising the Board on corporate governance matters and should also facilitate induction and professional development of Directors.

During the financial year, Mr. Yip has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

Mr. Yip resigned as the company secretary of the Company with effect from 4 March 2016. Ms. Ho Wing Yan ("**Ms. Ho**") was appointed as the company secretary of the Company to replace Mr. Yip with effect from 4 March 2016. Mr. Yu Yin is the primary corporate contact person of the Company with Ms. Ho.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board acknowledges its responsibility to prepare the Company's financial statements which give a true and fair view of the Company's state of affairs, results and cash flows for the year and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Company has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of KPMG, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

EXTERNAL AUDITOR

KPMG has been appointed as the external auditor of the Company, The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

In 2015, the fees payable to KPMG in respect of its annual audit services provided to the Company was RMB1.38 million.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all Shareholders an equal opportunity to exercise their rights in an informed manner and allow all Shareholders to engage actively with the Company. Under the Company's Articles of Association, the shareholder communication policy and other relevant internal procedures of the Company, the Shareholders enjoy, among others, the following rights:

(i) Participation at general meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the Shareholders no less than 45 days before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors.

(ii) Enquiries and proposals to the Board

The Company encourages Shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board Committees at the general meetings or providing written notice of such proposals for the attention of the company secretary of the Company at the registered office of the Company in Hong Kong currently situated at 33rd Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

(iii) Convening extraordinary general meetings

Pursuant to the Articles of Association, the Board shall convene an extraordinary general meeting within two months where the Shareholders with 10% or more voting right individually or jointly request to convene an extraordinary general meeting in writing. Two or more than two Shareholders in aggregate holding no less than 10% of 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). A Shareholder's general meeting shall be convened in accordance with the Articles of Association.

All reasonable expenses incurred by convening and holding the aforesaid meeting by Shareholders due to the failure of the Board to hold such meeting in response to the aforesaid request(s) shall be borne by the Company. Such expenses shall be deducted from the amounts due by the Company to the Director(s) who have defaulted their duties.

(iv) Procedures for putting forward proposals at a general meeting

In overseeing and monitoring the business operation of the Company, the Shareholders have the right to put forward proposals and raise inquiries. Shareholders holding 3% or more of the Company's voting shares have the right to put up ad hoc proposals in writing to the Company , and the Company shall include such ad hoc proposals into the agenda for such general meeting if they are matters falling within the functions and powers of general meeting.

CONSTITUTIONAL DOCUMENTS

Pursuant to resolutions of the Shareholders passed on 19 May 2014, 8 August 2014, 18 October 2014, 4 November 2014, 21 November 2014 and 18 December 2014, the Articles of Association were adopted with effect from the Listing Date. In 2015, certain amendments were made to the Articles of Association in connection with the conversion of the Company into a company limited by shares with foreign investment. These amendments were duly passed by the Shareholders at the general meeting of the Company held on 30 June 2015 and the amended version of the Articles of Association has been adopted since then. Save as disclosed above, no change was made to the Articles of Association during the year ended 31 December 2015.

The Articles of Association are available on the websites of the Stock Exchange and the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

During the year ended 31 December 2015, the Board complied with the Code Provisions on risk management and internal control as set out in the CG Code. The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. For the year ended 31 December 2015, the Board has reviewed the effectiveness of the Company's and its subsidiaries' risk management and internal control systems, and the systems are considered to be effective and adequate. The Board has been conducted such review on an annual basis and the Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest.

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the Shareholders of
Zuoli Kechuang Micro-finance Company Limited
(a joint stock Company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Zuoli Kechuang Micro-finance Company Limited. (the "Company") and its subsidiaries (together "the Group") set out on pages 57 to 112, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with our terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

22 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015
(Expressed in RMB'000, unless otherwise stated)

	Note	2015 RMB'000	2014 RMB'000
Interest income		**212,128**	160,237
Interest and commission expenses		**(8,177)**	(11,464)
Net interest income	2	**203,951**	148,773
Other net income	3	**41,328**	19,985
Impairment losses	4	**(5,972)**	(21,754)
Administrative expenses		**(42,346)**	(22,429)
Profit before taxation	5	**196,961**	124,575
Income tax	6	**(50,442)**	(31,176)
Profit and total comprehensive income for the year		**146,519**	93,399
Attributable to:			
Equity shareholders of the Company		**146,086**	93,399
Non-controlling interests		**433**	—
Profit for the year		**146,519**	93,399
Earnings per share	9		
Basic and diluted (RMB)		**0.12**	0.12

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2015

(Expressed in RMB'000, unless otherwise stated)

	Note	31 December 2015 RMB'000	31 December 2014 RMB'000
Assets			
Cash and cash equivalents	10	**82,572**	24,488
Interests receivables		**14,852**	9,795
Loans and advances to customers	11	**1,382,415**	1,109,394
Fixed assets	15	**4,162**	1,636
Goodwill	12	**18,005**	—
Deferred tax assets	19(b)	**16,966**	15,182
Other assets	16	**3,598**	16,922
Total assets		**1,522,570**	1,177,417
Liabilities			
Interest-bearing borrowings	17	**100,000**	175,000
Accruals and other payables	18	**7,249**	21,798
Current taxation	19(a)	**19,728**	9,740
Total liabilities		**126,977**	206,538
NET ASSETS		**1,395,593**	970,879
CAPITAL AND RESERVES	20		
Share capital		**1,180,000**	880,000
Reserves		**208,177**	90,879
Total equity attributable to equity shareholders of the Company		**1,388,177**	970,879
Non-controlling interests		**7,416**	—
TOTAL EQUITY		**1,395,593**	970,879

Approved and authorised for issue by the board of directors on 22 March 2016.

Yu Yin
Chairman of the Board

Hu Haifeng
Executive Director

Company chop

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 Note 20(c)	Capital/ share reserve RMB'000 Note 20(d)(i)	Surplus reserve RMB'000 Note 20(d)(ii)	General reserve RMB'000 Note 20(d)(iii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015	**880,000**	**12,303**	**7,858**	**–**	**70,718**	**970,879**	**–**	**970,879**
Changes in equity for 2015:								
Acquisition of subsidiary (Note 14)	**–**	**–**	**–**	**–**	**–**	**–**	**6,983**	**6,983**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**146,086**	**146,086**	**433**	**146,519**
H Shares issued (Note 20(c))	**300,000**	**(12,303)**	**(7,858)**	**–**	**(8,627)**	**271,212**	**–**	**271,212**
Appropriation to surplus reserve	**–**	**–**	**13,508**	**–**	**(13,508)**	**–**	**–**	**–**
Appropriation to general reserve	**–**	**–**	**–**	**10,984**	**(10,984)**	**–**	**–**	**–**
Balance at 31 December 2015	**1,180,000**	**–**	**13,508**	**10,984**	**183,685**	**1,388,177**	**7,416**	**1,395,593**

	Attributable to equity shareholders of the Company							
	Paid-in/ share capital RMB'000 Note 20(c)	Capital/ share reserve RMB'000 Note 20(d)(i)	Surplus reserve RMB'000 Note 20(d)(ii)	General reserve RMB'000 Note 20(d)(iii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2014	510,000	33,292	7,819	–	38,369	589,480	–	589,480
Changes in equity for 2014:								
Profit and total comprehensive income for the year	–	–	–	–	93,399	93,399	–	93,399
Capital injection	240,000	48,000	–	–	–	288,000	–	288,000
Appropriation to surplus reserve	–	–	7,858	–	(7,858)	–	–	–
Conversion into joint stock limited liability Company	130,000	(68,989)	(7,819)	–	(53,192)	–	–	–
Balance at 31 December 2014	880,000	12,303	7,858	–	70,718	970,879	–	970,879

The accompanying notes form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2015

(Expressed in RMB'000, unless otherwise stated)

	Note	2015 RMB'000	2014 RMB'000
Operating activities			
Cash generated from/(used in) operations	10(b)	**125,516**	(433,805)
PRC income tax paid	19(a)	**(32,460)**	(40,329)
Net cash generated from/(used in) operating activities		**93,056**	(474,134)
Investing activities			
Proceeds from disposal of investments		**—**	670,634
Proceeds from disposal of fixed assets		**113**	—
Payment for the purchase of fixed assets		**(3,052)**	(701)
Payments on acquisition of subsidiary		**(238,348)**	—
Payments on acquisition of investments		**—**	(520,470)
Net cash (used in)/generated from investing activities		**(241,287)**	149,463
Financing activities			
Proceeds from capital injection		**313,764**	288,000
Proceeds from new bank loans		**100,000**	245,000
Repayment of bank loans		**(175,000)**	(241,000)
Interest paid		**(8,576)**	(8,311)
Dividends paid to equity shareholders of the Company		**—**	(2,844)
Cash paid for other financing activities		**(23,872)**	(12,786)
Net cash used in financing activities		**206,316**	268,059
Net increase/(decrease) in cash and cash equivalents		**58,085**	(56,612)
Cash and cash equivalents at 1 January	10(a)	**24,488**	81,100
Effect of foreign exchange rate changes		**(1)**	—
Cash and cash equivalents at 31 December	10(a)	**82,572**	24,488

The accompanying notes form part of the financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, 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 recognised 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 24.

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

— Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contributions*

— Annual Improvements to *HKFRSs 2010–2012 Cycle*

— Annual Improvements to *HKFRSs 2011–2013 Cycle*

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKAS 19, Employee benefits: Defined benefit plans: Employee contributions

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the Group does not have any defined benefit plans to employees during the reporting period.

Annual Improvements to HKFRSs 2010–2012 Cycle and 2011–2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, Related party disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(h)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(k)).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 1(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses (see Note 1(k)).

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 recognised in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) 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:

	Estimated useful lives
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.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group 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 Group

Assets that are held by the Group under leases which transfer to the Group 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 Group are classified as operating leases.

(ii) Operating lease charges

Where the Group 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 recognised 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognised in the statement of financial position when the Group 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:

— *Loans and receivables*

Loans and receivables are non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

(a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;

(b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

(c) those where the Group 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 Group 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

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;

— 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 recognised as follows:

Loans and receivables

The Group 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 recognised 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

Loans and receivables (Continued)

The Group 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 recognised, 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 recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provisions for impairment losses upon necessary approval.

(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 Group 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 Group 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 derecognised when the financial assets meet one of the following conditions:

— the contractual rights to the cash flows from the financial asset expire; or

— the Group 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (Continued)

(iv) Derecognition of financial assets and financial liabilities (Continued)

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise 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 derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group 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 derecognised financial liability and the consideration paid is recognised 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 Group has a legally enforceable right to set off the recognised 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 Group. Considerations received from issuance of equity instruments net of transaction costs are recognised in equity. Considerations and transaction costs paid by the Group for repurchasing its own equity instruments are deducted from equity.

(i) Interest-bearing borrowings

Interest-bearing borrowings are recognised 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 recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(j) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets (other than revalued amounts);

— pre-paid interests in leasehold land classified as being held under an operating lease;

— goodwill; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— 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 recognised 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 recognised 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

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) 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.

Pursuant to the relevant laws and regulations of the PRC, the Company and one of the Group's subsidiary in the PRC have joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group 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.

(m) 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 recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised 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 recognised. 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 limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income tax (Continued)

The amount of deferred tax recognised 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 Group 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 or the Group 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.

(n) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 1(n)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 1(n)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Provisions and contingent liabilities (Continued)

(ii) Other provisions and contingent liabilities (Continued)

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.

(o) 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 Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Interest income

Interest income is recognised as it accrues using the effective interest method.

(ii) Government grants

Government grants are recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the assets and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(q) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group 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;

(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 Group or an entity related to the Group;

(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); or

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

(s) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group'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 Group is the provision of loans to customers in Huzhou City, Zhejiang Province, the PRC. The amount of each significant category of revenue recognised is as follows:

	2015 RMB'000	2014 RMB'000
Interest income arising from		
Loans and advances to customers	**210,732**	159,954
Cash at banks	**1,396**	283
	212,128	160,237
Interest and commission expenses arising from		
Borrowings from banks	**(8,105)**	(11,320)
Borrowings from non-bank institutions	**—**	(99)
Bank charges	**(72)**	(45)
	(8,177)	(11,464)
Net interest income	**203,951**	148,773

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's net interest income during the years ended 31 December 2015 and 2014. Details of concentration of credit risk are set out in Note 21(a).

For the years ended 31 December 2015 and 2014, the directors have determined that the Group has only one single business component/reportable segment as the Group is principally engaged in providing lending services which is the basis to allocate resources and assess performance of the Group.

The principal place of the Group's operation is in Huzhou City, Zhejiang Province in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded Huzhou City as its place of domicile. All the Group's revenue and assets are principally attributable to Huzhou City, being the main operating region.

3 OTHER NET INCOME

	2015 RMB'000	2014 RMB'000
Government grants	**35,171**	19,821
Exchange gains	**6,178**	—
Investment income from trading financial assets	**—**	164
Others	**(21)**	—
Total	**41,328**	19,985

4 IMPAIRMENT LOSSES

	2015 RMB'000	2014 RMB'000
Loans and advances to customers (Note 11)	**5,972**	21,754

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	2015 RMB'000	2014 RMB'000
Salaries, bonuses and allowance	**4,971**	2,779
Contribution to retirement scheme	**300**	190
Social insurance and other benefits	**2,938**	621
Total	**8,209**	3,590

The Group is required to participate in the pension scheme organised by the municipal government of Huzhou City, Zhejiang Province whereby the Group 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 year. The Group has no other material obligation for payment of retirement benefits to the PRC based employees beyond the annual contributions described above.

5 PROFIT BEFORE TAXATION (Continued)

(b) Other items

	2015 RMB'000	2014 RMB'000
Depreciation expenses (Note 15)	**1,179**	695
Operating lease charges in respect of building	**818**	515
Auditors' remuneration	**2,232**	1,020

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2015 RMB'000	2014 RMB'000
Current tax (Note 19(a))		
Provision for PRC income tax for the year	**42,448**	40,227
Deferred tax (Note 19(b))		
Origination and reversal of temporary differences	**7,994**	(9,051)
Total	**50,442**	31,176

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2015 RMB'000	2014 RMB'000
Profit before taxation	**196,961**	124,575
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (Notes)	**49,240**	31,144
Effect of non-deductible expenses	**1,202**	32
Actual income tax expense	**50,442**	31,176

Notes:

(i) The Company and the subsidiary of the Group incorporated in the PRC are subject to PRC income tax at the statutory tax rate of 25% for the year ended 31 December 2015 (2014: 25%).

(ii) No provision for Hong Kong profit tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong profit tax for the year ended 31 December 2015 (2014: not applicable).

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2015			
	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Chairman				
Yu Yin (俞寅)	6	360	54	420
Executive directors				
Zheng Xuegen (鄭學根)	6	240	54	300
Hu Haifeng (胡海峰)	6	300	54	360
Ding Maoguo (丁茂國) (Resigned on 24 July 2015)	–	120	–	120
Non-executive directors				
Pan Zhongmin (潘忠敏)	6	–	–	6
Independent non-executive directors				
Ho Yuk Ming (何育明)	100	–	–	100
Jin Xuejun (金雪軍)	100	–	–	100
Huang Lianxi (黃廉熙)	100	–	–	100
Supervisors				
Shen Yamin (沈婭敏)	6	72	18	96
Dai Shengqing (戴勝慶)	6	–	–	6
Wang Peijun (王培軍)	6	–	–	6
	342	1,092	180	1,614

7 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	2014			
	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Chairman				
Yu Yin (俞寅)	6	212	54	272
Executive directors				
Zheng Xuegen (鄭學根)	6	120	54	180
Hu Haifeng (胡海峰)	6	175	54	235
Ding Maoguo (丁茂國) (Appointed on 28 April 2014)	5	100	39	144
Chu Nongying (褚農穎) (Resigned on 18 February 2014)	1	—	—	1
Non-executive directors				
Pan Zhongmin (潘忠敏) (Appointed on 8 August 2014)	3	—	—	3
Chu Nongying (褚農穎) (Appointed on 19 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
Independent non-executive directors				
Ho Yuk Ming (何育明) (Appointed on 28 April 2014)	72	—	—	72
Jin Xuejun (金雪軍) (Appointed on 28 April 2014)	75	—	—	75
Huang Lianxi (黃廉熙) (Appointed on 28 April 2014)	75	—	—	75

7 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	2014			
	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Supervisors				
Dai Shengqing (戴勝慶) (Appointed on 8 August 2014)	2	—	—	2
Wang Peijun (王培軍) (Appointed on 8 August 2014)	2	—	—	2
Shen Yamin (沈婭敏)	6	65	26	97
Xia Jing (夏靜) (Resigned on 27 April 2014)	2	33	18	53
Fan Haimin (范海民) (Resigned on 27 April 2014)	2	—	—	2
Tang Hairong (唐海榮) (Appointed on 28 April 2014 and resigned on 7 August 2014)	2	—	—	2
Yu Chao (俞超) (Appointed on 28 April 2014 and resigned on 7 August 2014)	2	—	—	2
	278	705	245	1,228

There were no amounts paid during the years ended 31 December 2015 and 2014 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 years ended 31 December 2015 and 2014.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2014: five) are directors or supervisors of the Group for the year ended 31 December 2015, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other two individuals are as follow:

	2015 RMB'000	2014 RMB'000
Salaries and other emoluments	**386**	—
Discretionary bonuses	**108**	—
	494	—

The emoluments of the two individuals with the highest emoluments are within the following bands:

	2015 Number of individuals	2014 Number of individuals
Hong Kong dollar		
Nil–1,000,000	**2**	—
1,000,001–1,500,000	**—**	—

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2015 and 2014.

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 during the year as follows:

	2015	2014
Profit attributable to the equity shareholders of the Company (RMB'000)	**146,086**	93,399
Weighted average number of ordinary shares in issue ('000)	**1,170,137**	811,335
Basic earnings per share (RMB)	**0.12**	0.12

9 EARNINGS PER SHARE (Continued)

(i) Weighted average number of ordinary shares

	2015 RMB'000	2014 RMB'000
Issued ordinary shares at 1 January	**880,000**	510,000
Effect of capital injection (Note 20(c))	**—**	181,479
Effect of H share issued (Note 20(c))	**290,137**	—
Effect of capitalisation issue (Note 20(c))	**—**	119,856
Weighted average number of ordinary shares at 31 December	**1,170,137**	811,335

There were no dilutive potential ordinary shares during the years ended 31 December 2015 and 2014, 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:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Cash in hand	**2**	—
Cash at banks	**82,398**	24,488
Others	**172**	—
Cash and cash equivalents in the cash flow statement	**82,572**	24,488

10 CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of profit before taxation to cash used in operating activities:

	2015 RMB'000	2014 RMB'000
Profit before taxation	**196,961**	124,575
Adjustment for:		
Impairment losses	**5,972**	21,754
Depreciation and amortisation	**1,179**	695
Exchange gains	**(6,178)**	—
Interest expenses	**8,105**	11,419
Investment income	**—**	(164)
Changes in working capital:		
Increase in loans and advances to customers	**(67,176)**	(613,910)
(Increase)/decrease in interest receivables and other assets	**(975)**	3,802
(Decrease)/increase in accruals and other payables	**(12,372)**	18,024
Cash generated from/(used in) operations	**125,516**	(433,805)

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2015 RMB'000	31 December 2014 RMB'000
Corporate loans	**708,934**	699,580
Retail loans	**643,174**	455,645
Internet loans	**103,261**	—
Gross loans and advances to customers	**1,455,369**	1,155,225
Less: Allowances for impairment losses		
— Collectively assessed	**(54,932)**	(40,380)
— Individually assessed	**(18,022)**	(5,451)
Total allowances for impairment losses	**(72,954)**	(45,831)
Net loans and advances to customers	**1,382,415**	1,109,394

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Analysed by type of collateral

	31 December 2015 RMB'000	31 December 2014 RMB'000
Unsecured loans	**91,144**	450
Guaranteed loans	**1,283,653**	1,098,330
Collateralized loans	**79,972**	55,445
Pledged loans	**600**	1,000
Gross loans and advances to customers	**1,455,369**	1,155,225
Less: Allowances for impairment losses		
— Collectively assessed	**(54,932)**	(40,380)
— Individually assessed	**(18,022)**	(5,451)
Total allowances for impairment losses	**(72,954)**	(45,831)
Net loans and advances to customers	**1,382,415**	1,109,394

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Analysed by industry sector

	31 December 2015 RMB'000	%	31 December 2014 RMB'000	%
Wholesale and retail	**282,920**	**19%**	173,350	15%
Agriculture, forestry, animal husbandry and fishery	**197,220**	**14%**	195,350	17%
Construction	**158,492**	**11%**	187,000	16%
Manufacturing	**35,752**	**3%**	77,030	7%
Others	**34,550**	**2%**	66,850	6%
Corporate loans	**708,934**	**49%**	699,580	61%
Retail loans	**643,174**	**44%**	455,645	39%
Internet loans	**103,261**	**7%**	—	—
Gross loans and advances to customers	**1,455,369**	**100%**	1,155,225	100%
Less: Allowances for impairment losses	**(72,954)**		(45,831)	
Net loans and advances to customers	**1,382,415**		1,109,394	

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(d) Overdue loans analysed by type of collateral and overdue period

	31 December 2015				
	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**
Unsecured loans	**173**	**—**	**200**	**—**	**373**
Guaranteed loans	**1,215**	**—**	**400**	**3,487**	**5,102**
Collateralized loans	**580**	**2,300**	**3,600**	**3,787**	**10,267**
Total	**1,968**	**2,300**	**4,200**	**7,274**	**15,742**

	31 December 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
Collateralized loans	70	—	—	475	545

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.

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(e) Analysed by methods for assessing allowances for impairment losses

	31 December 2015		
	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	**1,420,297**	**35,072**	**1,455,369**
Less: Allowances for impairment losses	**(54,932)**	**(18,022)**	**(72,954)**
Net loans and advances to customers	**1,365,365**	**17,050**	**1,382,415**

	31 December 2014		
	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	1,140,260	14,965	1,155,225
Less: Allowances for impairment losses	(40,380)	(5,451)	(45,831)
Net loans and advances to customers	1,099,880	9,514	1,109,394

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Movements of allowances for impairment losses

	2015		
	Provision for impairment losses which is collectively assessed RMB'000	**Provision for impairment losses which is individually assessed RMB'000**	**Total RMB'000**
At 1 January	**40,380**	**5,451**	**45,831**
Acquisition of subsidiary	**9,110**	**10,111**	**19,221**
Charge for the year	**5,442**	**10,837**	**16,279**
Reversal for the year	**—**	**(10,307)**	**(10,307)**
Write off	**—**	**(2,920)**	**(2,920)**
Recoveries of loans and advances written off in previous years	**—**	**4,850**	**4,850**
At 31 December	**54,932**	**18,022**	**72,954**

	2014		
	Provision for impairment losses which is collectively assessed RMB'000	Provision for impairment losses which is individually assessed RMB'000	Total RMB'000
At 1 January	18,696	5,381	24,077
Charge for the year	21,684	5,092	26,776
Reversal for the year	—	(5,022)	(5,022)
At 31 December	40,380	5,451	45,831

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality

	31 December 2015 RMB'000	31 December 2014 RMB'000
Gross balance of loans and advances to customers		
Neither overdue nor impaired	**1,420,297**	1,140,260
Impaired	**35,072**	14,965
	1,455,369	1,155,225
Less: Allowances for impairment losses		
Neither overdue nor impaired	**(54,932)**	(40,380)
Impaired	**(18,022)**	(5,451)
	(72,954)	(45,831)
Net balance		
Neither overdue nor impaired	**1,365,365**	1,099,880
Impaired	**17,050**	9,514
	1,382,415	1,109,394

12 GOODWILL

	RMB'000
Cost:	
At 1 January 2015	—
Addition through acquisition of a subsidiary	18,005
At 31 December 2015	18,005
Accumulated impairment losses:	
At 31 December 2015	—
Carrying amount:	
At 31 December 2015 (2014: Nil)	18,005

(Expressed in RMB'000, unless otherwise stated)

12 GOODWILL (Continued)

The Group acquired 96.9298% equity interest in Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance") for a total consideration of RMB238.5 million on 1 July 2015. The excess of the acquisition costs over the net fair value of Jinhui Micro-finance's identifiable net assets of RMB18.0 million was recorded as goodwill and allocated to the micro-finance operation of Jinhui Micro-finance.

Impairment test

The recoverable amount of Jinhui Micro-finance is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 5%, which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for micro-finance operations. The cash flows are discounted using a discount rate which is used are pre-tax and reflect specific risks relating to Jinhui Micro-finance.

13 INVESTMENTS IN SUBSIDIARIES

The following list contains all the subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

Name of Company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Group's effective interest	Held by the Company	
Jinhui Micro-finance (Note(i))	Deqing, Zhejiang	228,000,000 shares	96.9298%	96.9298%	Micro-finance
Zuoli Micro-finance Hong Kong International Investment Company Limited 佐力小貸香港國際投資有限公司 ("Zuoli HK")	HongKong	1,000,000 shares (Note(ii))	100%	100%	Investment, Trading

Notes:

(i) Jinhui Micro-finance was not audited by KPMG for the year ended 31 December 2015. The financial statements of Jinhui Micro-finance not audited by KPMG reflect total net assets and total net interest income constituting approximately 17.31% and 14.29% respectively of the related consolidated amounts of the Group.

(ii) On 18 August 2015 (date of incorporation), Zuoli HK's 1,000,000 shares with par value of HK$1 was allotted and issued to its sole shareholder, the Company. As at 31 December 2015, the issued shares had not been paid by the Company.

14 ACQUISITION OF SUBSIDIARY

On 30 April 2015, the Company paid the consideration of RMB238.5 million to acquire 96.9298% equity interests in Jinhui Micro-finance. The above acquisition was completed on 1 July 2015.

The acquisition is expected to provide the Group with an increased share of the micro-finance business market in Huzhou City, Zhejiang province. The Group also expects to reduce costs through economics of scale.

From the date of the above acquisition to 31 December 2015, Jinhui Micro-finance contributed net interest income of RMB15.6 million and net profit of RMB14.1 million to the Group's results. If the acquisition had occurred on 1 January 2015, management estimates that consolidated net interest income would have been RMB219.8 million, and consolidated net profit for the year would have been RMB148.6 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2015.

Pursuant to the share purchase agreement ("Purchase Agreement") signed on 30 April 2015, the Company has agreed to pay the selling shareholders an additional consideration no more than RMB3.9 million which was equal to the government grant actually received by Jinhui Micro-finance subsequent to the date of Purchase Agreement and before 31 December 2015. By 31 December 2015, the Group has received the above mentioned government grant of RMB2.6 million and paid it to the selling shareholders. As at 31 December 2015, the Group has no further obligation to pay any additional consideration regarding the above mentioned government grant.

Pursuant to the Purchase Agreement, the Company has also agreed to pay the selling shareholders an additional consideration which was equal to the actual repayment received by Jinhui Micro-finance in relation to the principals and interests of two designated loans (the "Outstanding Receivables") subsequent to the date of Purchase Agreement. The Outstanding Receivables were RMB14.4 million as at the date of Purchase Agreement. As at the acquisition date and 31 December 2015, the Group estimated no cash flows are able to be collected regarding the Outstanding Receivables and therefore recognized the fair value of the contingent consideration as zero.

(a) Identifiable assets acquired and liabilities assumed

	RMB'000
Cash and cash equivalents	8,076
Interests receivables	1,302
Loans and advances to customers	211,817
Fixed assets (Note 15)	648
Deferred tax assets (Note 19(b))	9,778
Other assets	2,076
Accruals and other payables	(6,251)
Total identifiable net assets acquired	227,446

14 ACQUISITION OF SUBSIDIARY (Continued)

(b) Goodwill

Goodwill arising from the acquisition has been recognised as follows.

	Note	RMB'000
Consideration transferred		238,468
Non-controlling interests, based on the proportionate interest in the recognised amounts of the assets and liabilities of Jinhui Micro-finance		6,983
Fair value of the identifiable net assets acquired	(a)	(227,446)
Goodwill	12	18,005

The goodwill is attributable mainly to the skills and business relationships with clients of Jinhui Micro-finance's work force and the synergies expected to be achieved from integrating the company into the Group's existing micro-finance business. None of the goodwill recognised is expected to be deductible for tax purposes.

15 FIXED ASSETS

	Office and other equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost:					
At 1 January 2014	570	562	286	1,545	2,963
Additions	18	623	60	—	701
At 31 December 2014 and 1 January 2015	588	1,185	346	1,545	3,664
Acquisition of subsidiary (Note 14)	69	215	125	966	1,375
Additions	73	380	672	2,045	3,170
Disposal	—	(215)	—	—	(215)
At 31 December 2015	730	1,565	1,143	4,556	7,994
Accumulated depreciation:					
At 1 January 2014	(243)	(225)	(118)	(747)	(1,333)
Charge for the year	(117)	(206)	(63)	(309)	(695)
At 31 December 2014 and 1 January 2015	(360)	(431)	(181)	(1,056)	(2,028)
Acquisition of subsidiary (Note 14)	(34)	(98)	(80)	(515)	(727)
Charge for the year	(138)	(259)	(107)	(675)	(1,179)
Disposal	—	102	—	—	102
At 31 December 2015	(532)	(686)	(368)	(2,246)	(3,832)
Net book value:					
At 31 December 2015	198	879	775	2,310	4,162
At 31 December 2014	228	754	165	489	1,636

16 OTHER ASSETS

	31 December 2015 RMB'000	31 December 2014 RMB'000
IPO service fees	—	16,237
Prepaid income tax (Note)	1,808	—
Prepayment	1,693	—
Others	97	685
	3,598	16,922

Note: Prepaid income tax represents the over-paid income tax by Jinhui Micro-finance for the year ended 31 December 2015.

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 recognised as expense within one year.

17 INTEREST-BEARING BORROWINGS

	31 December 2015 RMB'000	31 December 2014 RMB'000
Bank loans (Note)		
— Guaranteed by related parties	100,000	175,000

Note: All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 21(b). At 31 December 2015 and 31 December 2014, none of the covenants relating to the bank loans had been breached.

18 ACCRUALS AND OTHER PAYABLES

	31 December 2015 RMB'000	31 December 2014 RMB'000
Conditional government grants (Note)	**–**	13,000
IPO service fees payable	**–**	4,475
Business tax and surcharges and other taxation payable	**1,750**	1,286
Accrued staff costs	**1,748**	1,147
Interest payable	**61**	532
Other payables	**3,690**	1,358
	7,249	21,798

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 a special meeting minute by Deqing County Government.

On 13 January 2015, the Company listed its H Shares on the Main Board of The Stock Exchange of Hong Kong Limited and recognised the above conditional government grants as other net income in 2015.

19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements in current taxation in the consolidated statement of financial position are as follows:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Balance of income tax payable at the beginning of the year	**9,740**	9,842
Provision for PRC income tax for the year (Note 6(a))	**42,448**	40,227
Income tax paid during the year	**(32,460)**	(40,329)
Balance of income tax payable at the end of the year	**19,728**	9,740

19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the years ended 31 December 2015 and 2014 are as follows:

Deferred tax assets arising from:	Provision for impairment losses RMB'000	Accrued expenses RMB'000	Conditional government grants RMB'000	Recognised tax losses	Total RMB'000
At 1 January 2014	6,019	112	—	—	6,131
Credited to profit or loss (Note 6(b))	5,439	362	3,250	—	9,051
At 31 December 2014 and 1 January 2015	11,458	474	3,250	—	15,182
Acquisition of subsidiary (Note 14)	2,674	100	—	7,004	9,778
Charged to profit or loss (Note 6(b))	(367)	183	(3,250)	(4,560)	(7,994)
At 31 December 2015	13,765	757	—	2,444	16,966

20 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 Note 20(c)	Share reserve RMB'000 Note 20(d)(i)	Capital reserve RMB'000 Note 20(d)(ii)	General reserve RMB'000 Note 20(d)(iii)	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2015	**880,000**	**12,303**	**7,858**	**–**	**70,718**	**970,879**
Changes in equity for 2015:						
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**135,083**	**135,083**
H Shares issued (Note 20(c))	**300,000**	**(12,303)**	**(7,858)**	**–**	**(8,627)**	**271,212**
Appropriation to surplus reserve	**–**	**–**	**13,508**	**–**	**(13,508)**	**–**
Appropriation to general reserve	**–**	**–**	**–**	**9,209**	**(9,209)**	**–**
Balance at 31 December 2015	**1,180,000**	**–**	**13,508**	**9,209**	**174,457**	**1,377,174**

	Paid-in/ share capital RMB'000 Note 20(c)	Capital/ share reserve RMB'000 Note 20(d)(i)	Surplus reserve RMB'000 Note 20(d)(ii)	General reserve RMB'000 Note 20(d)(iii)	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2014	510,000	33,292	7,819	–	38,369	589,480
Changes in equity for 2014:						
Total comprehensive income for the year	–	–	–	–	93,399	93,399
Capital injection	240,000	48,000	–	–	–	288,000
Appropriation to surplus reserve	–	–	7,858	–	(7,858)	–
Conversion into joint stock limited liability Company	130,000	(68,989)	(7,819)	–	(53,192)	–
Balance at 31 December 2014	880,000	12,303	7,858	–	70,718	970,879

20 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

The Group recommends the payment of a final dividend of RMB0.14 per share for the year ended 31 December 2015 (2014: RMB nil per share).

(c) Paid-in/Share capital

On 13 January 2015, 300,000,000 ordinary shares of the Company were issued and listed on The Stock Exchange of Hong Kong Limited. As at 31 December 2015, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1 each.

The capital injections from equity holders of the Company are RMB240.0 million at 31 March 2014. Pursuant to a conversion completed on 28 April 2014, the Company was converted into a joint stock limited liability company from a limited liability company. As at 31 December 2014, the share capital represented 880,000,000 ordinary shares of the Company at RMB1 each.

(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 Group and capital injection/proceeds received from the issuance of the shares of the Group.

(ii) Surplus reserve

The surplus reserve represents statutory surplus reserve fund. The Group 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 Group 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 and its subsidiary in the PRC engaged in micro-finance business are 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. The directors of the Group expect to comply with the relevant regulations before 30 June 2017.

20 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Appropriation of profits

(i) In accordance with the resolution of the Company's board of directors meeting on 22 March 2016, the proposed profit appropriations for the year ended 31 December 2015 are as follows:

— Appropriate RMB13.5 million (10% of the net profit of the Company) to surplus reserve;

— Appropriate RMB9.2 million to general reserve; and

Declare cash dividends of RMB165.2 million representing RMB0.14 per share to all shareholders.

The profit appropriation resolution mentioned above has yet to be approved by the Company's shareholders.

(ii) At the Annual General Meeting of shareholders held on 30 June 2015, the shareholders approved the following profit appropriations for the year ended 31 December 2014:

— Appropriate RMB7.9 million to surplus reserve.

(f) Distributable reserves

At 31 December 2014 and 31 December 2015, the aggregate amounts of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Company Law of the PRC, were RMB70.7 million and RMB174.5 million respectively.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group'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 Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher 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 Group's approach to capital management during the years ended 31 December 2015 and 2014.

Particularly for credit loan business, the Group monitors regularly the residual balance of outstanding credit loans for single customers and multiples of the total outstanding credit loans in relation to share capital of the Group, so as to keep the capital risk within an acceptable limit. The decision to manage the share capital of the Group to meet the needs of developing credit loans business rests with the directors.

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practice used by the Group 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 Group provided. It arises primarily from the Group's micro-finance business and treasury business such as investment in wealth management products.

Credit risk arising from micro-finance business

The Group's credit risk mainly arises from micro-finance business. The Group has established relevant mechanism to cover credit risk in key operational phases of micro-finance business, including pre-lending evaluations, credit approval, and post-lending monitoring. The Group 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 Group's deputy general manager, general manager or loan assessment committee, depending on the amount of the loans. During the post-lending monitoring, the Group 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 Group 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 recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Credit risk arising from micro-finance business (Continued)

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 Group's operating results to a particular industry or geographic location. As the Group mainly conducts micro-finance business in Huzhou City, 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. At 31 December 2015, 2.13% (2014: 3.07%) and 9.53% (2014: 12.16%) of the total loans and advances to customers was due from the Group's largest customer and the five largest customers respectively.

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 reporting periods.

Other credit risk

The Group 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 recognised 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 Group does not obtain collateral from customers.

(b) Liquidity risk

Management regularly monitors the Group's liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

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 Group at the end of the reporting periods:

	31 December 2015					
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	82,572	–	–	–	82,572	82,572
Interest receivables	14,852	–	–	–	14,852	14,852
Loans and advances to customers	15,742	359,962	1,199,943	–	1,575,647	1,382,415
Other assets	1	–	–	–	1	1
Total	113,167	359,962	1,199,943	–	1,673,072	1,479,840
Liabilities						
Interest-bearing borrowings	–	(1,354)	(103,299)	–	(104,653)	(100,000)
Accruals and other payables	(3,751)	–	–	–	(3,751)	(3,751)
Total	(3,751)	(1,354)	(103,299)	–	(108,404)	(103,751)
	109,416	358,608	1,096,644	–	1,564,668	1,376,089

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

	31 December 2014					
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	24,488	—	—	—	24,488	24,488
Interest receivables	9,795	—	—	—	9,795	9,795
Loans and advances to customers	545	360,910	871,114	138	1,232,707	1,109,394
Other assets	685	—	—	—	685	685
Total	35,513	360,910	871,114	138	1,267,675	1,144,362
Liabilities						
Interest-bearing borrowings	—	(1,690)	(179,618)	—	(181,308)	(175,000)
Accruals and other payables	(6,365)	—	—	—	(6,365)	(6,365)
Total	(6,365)	(1,690)	(179,618)	—	(187,673)	(181,365)
	29,148	359,220	691,496	138	1,080,002	962,997

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest risk

The Group 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.

(i) Interest rate profile

The following tables details the interest rate profile of the Group's assets and liabilities as at the end of the reporting periods:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Fixed interest rate		
Financial assets		
— Loans and advances to customers	**1,382,415**	1,109,394
Financial liabilities		
— Interest-bearing borrowings	**(100,000)**	(175,000)
Net	**1,282,415**	934,394
Variable interest rate		
Financial assets		
— Cash at banks	**82,398**	24,488
Net	**82,398**	24,488
Net fixed rate borrowings as a percentage of total borrowings	**100.00%**	100.00%

(ii) Sensitivity analysis

At 31 December 2015 and 31 December 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 Group's net profit during the next 12 months by approximately RMB309,000 and RMB92,000 respectively.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period.

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Fair value

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group'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.

As at 31 December 2015 and 2014, there were no financial assets and financial liabilities measured at fair value.

(ii) Fair value of financial assets and liabilities carried at other than fair value.

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2014 and 31 December 2015.

22 COMMITMENTS

The total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Within 1 year	**714**	515
After 1 year but within 5 years	**183**	515
Total	**897**	1,030

The Group 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.

23 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	2015 RMB'000	2014 RMB'000
Key management personnel Remuneration (Note (i))	**2,842**	1,566
Operating lease charges (Note (ii))	**515**	515
Receiving guarantees for bank loans (Note (iii))	**50,000**	—
Releasing guarantees for loans and advances to customers	**—**	(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.

(iii) The guarantees in 2015 were provided by the Chairman of the Company without charges, among which RMB 20.0 million and RMB 30.0 will be due on 22 December 2016 and 27 December 2016 respectively.

(b) Balances with key management personnel

	31 December 2015 RMB'000	31 December 2014 RMB'000
Other assets	**—**	350
Guarantees received for bank loans	**50,000**	—

23 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Other related party transactions

	2015 RMB'000	2014 RMB'000
Interest income	**–**	1
Additions of loans and advances to customers	**–**	1,000
Repayment of loans and advances to customers	**–**	(1,000)
Operating lease charges	**110**	–
Receiving guarantees for bank loans	**100,000**	245,000
Releasing guarantees for bank loans	**(175,000)**	(230,000)
Receiving guarantees for loans and advances to customers	**–**	3,900
Releasing guarantees for loans and advances to customers	**–**	(6,100)

All the transactions set out above were carried out during the period on normal commercial terms.

(d) Balances with other related parties

	31 December 2015 RMB'000	31 December 2014 RMB'000
Guarantees received for bank loans (Note)	**100,000**	175,000

Note: The guarantees in 2015 were provided by the related parties of the Group without charges, among which RMB 50.0 million, RMB 20.0 million and the rest will be due on 23 August 2016, 22 December 2016 and 27 December 2016 respectively.

The guarantees in 2014 were provided by the related parties of the Group without charges, and expired on 13 January 2015.

24 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, the key sources of estimation uncertainty are as follows:

(a) Impairment of receivables and loans and advances

The Group 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(h), receivables stated at amortized cost are reviewed at the end of each reporting period to assess whether impairment losses exist. The Group 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 recognised, 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 recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 1(k). 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 Group 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.

24 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(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 Group 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 recognised for temporary deductible differences. As those deferred tax assets can only be recognised 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 recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**31 December 2015 RMB'000**	31 December 2014 RMB'000
Assets			
Cash and cash equivalents		**71,849**	24,488
Interests receivables		**13,414**	9,795
Loans and advances to customers		**1,160,708**	1,109,394
Fixed assets		**3,436**	1,636
Investments in subsidiary		**241,134**	—
Deferred tax assets		**11,892**	15,182
Other assets		**835**	16,922
Total assets		**1,503,268**	1,177,417
Liabilities			
Interest-bearing borrowings		**100,000**	175,000
Accruals and other payables		**6,366**	21,798
Current taxation		**19,728**	9,740
Total liabilities		**126,094**	206,538
NET ASSETS		**1,377,174**	970,879

25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

	Note	**31 December 2015 RMB'000**	31 December 2014 RMB'000
CAPITAL AND RESERVES	20		
Share capital		**1,180,000**	880,000
Reserves		**197,174**	90,879
TOTAL EQUITY		**1,377,174**	970,879

Approved and authorised for issue by the board of directors on 22 March 2016.

Yu Yin
Chairman of the Board

Hu Haifeng
Executive Director

Company chop

(Expressed in RMB'000, unless otherwise stated)

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to HKFRSs 2012–2014 Cycle	1 January 2016
HKFRS 14, *Regulatory deferral accounts*	1 January 2016
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
Amendments to HKAS 27, *Equity method in separate financial statements*	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28, Investment entities: *Applying the consolidation exception*	1 January 2016
Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments 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 consolidated financial statements. In particular with reference to HKFRS 9 which would require companies to assess impairment provisions using 12-month or lifetime expected credit losses approach, given that the Group principally operates a short-term financing business, with terms generally less than 12 months, the Group concluded that the adoption of HKFRS 9 is unlikely to have a significant impact on the Group's results of operations and financial position.

27 SUBSEQUENT EVENTS

(i) The profit appropriation of the Company was proposed in accordance with the resolution of the Company's board of directors meeting as disclosed in Note 20(e).

(ii) On 11 December 2015, the directors of the Company approved a proposal of issuance of private bonds in the PRC with an aggregate amount not more than RMB600.0 million (inclusive), and the subsisting balance shall not exceed RMB300.0 million (inclusive) at any time, with a maturity of 6 months for each tranche. The specific tranches of issue and the amount issued per tranche will depend on market conditions. The interest rate will be determined by reference to the interest rate of private bond issuance in the market under the same conditions over the same period. As at 22 March 2016, the above proposed issuance of the private bonds is subject to the shareholders and relevant regulator's approval.

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