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 2017

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)"	customers engaged in agricultural businesses and/or rural development activities, and/or customers residing in rural areas
"AGM"	an annual general meeting of the Company to be held at Conference Room, 3th Floor, Zuoli Building, No. 399 Deqing Avenue, Deqing, Zhejiang, the PRC on Thursday, 28 June 2018 3:00 p.m.
"AIC"	工商行政管理機關 (Administration of Industry and Commerce*) in the PRC or, where the context so requires, the State Administration of Industry and Commerce of the PRC (中華人民共和國工商行政管理總局) or its delegated authority at provincial, municipal or other local level
"Articles of Association"	the articles of association of the Company
"Bangni Fiber"	浙江邦尼耐火纖維有限公司 (Zhejiang Bangni Refractory Fiber Co., Ltd.*)
"Board" or "Board of Directors"	the board of directors of the Company
"Board of Supervisors"	the board of supervisors of the Company
"Chief Financial Controller"	the chief financial controller of the Company
"Chief Operating Officer"	the chief operating officer of the Company
"Circular No. 36"	"Circular on Comprehensive Promotion of the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax" (Cai Shui [2016] No. 36) (財政部國家稅務總局《關於全面推開營業稅改徵增值稅試點的通知》(財稅[2016]36號)) issued by the Ministry of Finance and the State Administration of Taxation
"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"	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 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"	德清銀天股權投資管理有限公司 (Deqing Yintian Equity Investment and Management Company Limited*)
"Dingsheng Investment"	德清鼎盛股權投資管理有限公司 (Deqing Dingsheng Equity Investment and Management Company Limited*)
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB 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"	德清金匯小額貸款有限公司 (Deqing Jinhui Micro-finance Company Limited*)
"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"	德清佐力科創小額貸款有限公司 (Deqing Zuoli Kechuang Micro-finance Company Limited*), 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"	德清普華能源有限公司 (Deqing Puhua Energy Company Limited*)
"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 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
"Xingyao Micro-finance"	杭州市高新區(濱江)興耀普匯小額貸款有限公司 (Hangzhou High-tech District (Binjing) Xingyao Pu Hui Micro-finance Co., Ltd.*)
"Zuoli Holdings"	佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*)

* For identification purposes only

Corporate Information

DIRECTORS

Executive Directors

Mr. Yu Yin *(Chairman)*
Mr. Zheng Xuegen *(Vice-Chairman)*
Mr. Yang Sheng *(Vice-Chairman)*
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. Yu Yin
Mr. Jin Xuejun

LOAN APPROVAL COMMITTEE

Mr. Hu Haifeng *(Chairman)*
Mr. Zheng Xuegen
Ms. Fei Xiaofang
Mr. Huang Chenjiang
Ms. Hu Fangfang

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

No. 57–67, Dongsheng Road
Wukang Road
Deqing County
Zhejiang
PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 57–67, Dongsheng Road
Wukang Road
Deqing County
Zhejiang
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.zlkcxd.cn

STOCK CODE

6866

AUDITOR

KPMG
Certified Public Accountants

LEGAL ADVISERS

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

H SHARE REGISTRAR

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

PRINCIPAL BANKER

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

Financial Summary

The following is a summary of assets and liabilities of the Group as at 31 December 2013, 2014, 2015, 2016 and 2017 and of the results of the Group for each of the years ended 31 December 2013, 2014, 2015, 2016 and 2017.

RESULTS	Year ended 31 December				
	2013 RMB'000 (Note)	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
Interest income	90,789	160,237	212,128	243,360	**314,301**
Profit before taxation	68,970	124,575	196,961	200,869	**209,382**
Income tax	(17,354)	(31,176)	(50,442)	(50,333)	**53,530**
Profit and total comprehensive income for the year	51,616	93,399	146,519	150,536	**155,852**
Profit attributable to the equity shareholders of the Company	51,616	93,399	146,086	146,147	**148,828**
ASSETS AND LIABILITIES					
Total assets	776,748	1,177,417	1,522,570	2,033,266	**2,217,262**
Total liabilities	187,268	206,538	126,977	568,691	**597,393**
Total equity	589,480	970,879	1,395,593	1,464,575	**1,619,869**

Note: The summary of the results of the Company for the year ended 31 December 2013 and the summary of the assets, liabilities and equity of the Company as at 31 December 2013 have been extracted from the prospectus of the Company dated 30 December 2014.

Chairman's Statement

2017 was the year during which financial industry experienced transformations and innovations. It was a year full of both challenges and opportunities. Under such circumstances, we insisted to expand our business to market in depth and continuously enhance our financing capacity. As such, we turned crisis into opportunities which in turn realized steady growth in our results.

On behalf of the Board, I would like to express my gratitude to our Shareholders and stakeholders who have been following and supporting the development of the Group, and all of our employees who have been striving for the best results for the Company. On behalf of the Group, I would like to present to you our operating results for 2017.

In the past year, through the combination of business and market expansion and risks prevention and control, we achieved moderate growth under the macro-environment where the objective economy condition was not optimistic. In 2017, our loans scale reached RMB11,758.8 million; interest income reached RMB314.301 million; net profit reached RMB155.852 million; profit attributable to equity shareholders of the Company reached RMB148.828 million, representing an increase of 1.8% over the same period of 2016.

In 2017, we implemented a business reorganization plan with Jinhui Micro-finance, a subsidiary of the Company. Currently, the capital injection has been completed. We are in the course of obtaining approvals from relevant authorities in relation to the surrender of the Company's micro-finance company license on its entity level and transforming it into a holding company.

Upholding the stability of micro-finance business, our core business, we aim at exploring in more fields, grasping suitable opportunities for business development, and developing towards diversification and specialization while further optimizing business and financing structure of the Group so as to enhance our competitiveness in the market.

In 2018, we will continue to accelerate business transformation on the Company's entity level and strengthen our support for subsidiaries. We will continue to strengthen the development of our micro-finance business for a comprehensive improvement to the Group's business.

Zuoli Kechuang Micro-finance Company Limited*
Yu Yin
Chairman

23 March 2018

* *For identification purpose only*

Management Discussion and Analysis

INDUSTRY OVERVIEW

We commenced our microfinance business in the PRC, and our offline business is mainly conducted in Deqing County, Huzhou City and Binjiang District, Hangzhou City, the PRC. Deqing has experienced robust economic development and growth in recent years, and is 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). 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 (長三角金融後臺基地)" by the Zhejiang provincial government of the PRC. A number of new high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which has helped cultivating the local financial services industry.

Competition within the microfinance industry in Zhejiang is extremely intense. As of 31 December 2017, the number of microfinance companies in Zhejiang reached 339. The average registered capital per microfinance company amounted to RMB183 million. The average loan balance per microfinance company amounted to RMB206.9 million.

The microfinance industry in Deqing has also seen rapid growth. As of 31 December 2017, apart from the Group, there were three other microfinance companies in Deqing. The accumulated aggregate amount of loans granted by the Group and three other microfinance companies for the year ended 31 December 2017 reached RMB13,774 million (2016: RMB5,182.7 million), out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 85.4% (2016: 66.8%). As of 31 December 2017, the balance of loans of the Group and three other microfinance companies reached RMB3,595 million (31 December 2016: RMB3,043.8 million), out of which the balance of loans of the Group contributed approximately 60% (31 December 2016: 62.1%).

BUSINESS OVERVIEW

As at 31 December 2017, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Financial Work Office of the People's Government of Zhejiang Province. We are dedicated to providing financing solutions and loan services to customers with flexible terms through quick and comprehensive loan assessment and approval processes.

Our customer base primarily consists of AFR (三農), SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products.

In November 2016, we acquired Xingyao Micro-finance which is located in Hangzhou City, Zhejiang Province. The acquisition allowed us to expand our offline business coverage to Hangzhou City and further strengthened our competitive advantages.

Due to our clients' consistently strong demand for our financing services, our gross loan balance increased from RMB1,889.5 million as at 31 December 2016 to RMB2,144.9 million as at 31 December 2017.

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 2017	As of 31 December 2016
Registered capital (RMB'000)	**1,180,000**	1,180,000
Gross outstanding loans and advances to customers (RMB'000)	**2,144,943**	1,889,520
Leverage ratio[(1)]	**1.82**	1.60

Note:

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

For the years ended 31 December 2016 and 2017, our average interest rates for loans were 15.2% and 15.4%, respectively. Our average loan interest rate basically remained stable during the aforesaid period, as we continue to target our service towards clients who have stronger capability for repayment in 2017, and we charged such clients in relatively competitive interest rates.

We primarily served SMEs, micro enterprises and individuals in the agricultural, industrial and service sectors in Huzhou and Hangzhou and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc.

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

	As of 31 December 2017	As of 31 December 2016
Up to RMB500,000	**10,543**	14,714
Over RMB500,000 to RMB1 million (inclusive)	**215**	177
Over RMB1 million to RMB5 million (inclusive)	**327**	305
Over RMB5 million	**55**	43
Total number of outstanding loans and advances to customers	**11,140**	15,239

As at 31 December 2016 and 2017, approximately 97.7% and 96.6% of our loan contracts were of loan amount of up to RMB1 million, respectively. Among our loan contracts, the higher proportion of loans with amount up to RMB1 million was mainly due to our main targets of service, including the SMEs and micro enterprises, individuals in the agricultural, industrial and service sectors in Huzhou and Hangzhou and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products.

For the years ended 31 December 2016 and 2017, the loan amounts we granted were RMB3,461.5 million and RMB11,758.8 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 2017 RMB'000	%	As of 31 December 2016 RMB'000	%
Unsecured loans[1]	269,879	12.6	170,888	9.0
Guaranteed loans	1,813,468	84.5	1,651,250	87.4
Collateralized loans	61,546	2.9	59,602	3.2
Pledged loans	50	0.0	7,780	0.4
Total gross outstanding loans and advances to customers	2,144,943	100.0	1,889,520	100.0

Note:

(1) Our unsecured loans are generally 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 online loan business, which primarily focused on unsecured loans of small amounts and short terms.

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

	As of 31 December 2017 RMB'000	%	As of 31 December 2016 RMB'000	%
Due within three months	137,347	6.4	49,318	2.6
Due between three months and six months	501,943	23.4	484,343	25.6
Due between six months and one year	1,475,071	68.8	1,319,864	69.9
Due more than one year	30,582	1.4	35,995	1.9
Total gross outstanding loans and advances to customers	2,144,943	100.0	1,889,520	100.0

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

	As of 31 December 2017 RMB'000	%	As of 31 December 2016 RMB'000	%
Up to RMB500,000	470,315	21.9	341,430	18.1
Over RMB500,000 to RMB1 million (inclusive)	193,218	9.0	166,225	8.8
Over RMB1 million to RMB5 million (inclusive)	910,510	42.5	884,865	46.8
Over RMB5 million	570,900	26.6	497,000	26.3
Total gross outstanding loans and advances to customers	2,144,943	100.0	1,889,520	100.0

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 Bank 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:

Item	As of 31 December 2017 RMB'000	%	As of 31 December 2016 RMB'000	%
Normal	2,084,888	97.2	1,757,647	93.0
Special mention	27,124	1.3	104,888	5.6
Substandard	3,273	0.2	6,567	0.3
Doubtful	15,763	0.7	15,388	0.8
Loss	13,895	0.6	5,030	0.3
Total gross outstanding loans and advances to customers	2,144,943	100.0	1,889,520	100.0

For "normal" and "special mention" loans, given that they are not impaired, we make collective assessment based primarily on factors including prevailing general market, 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 indicated:

	As of 31 December 2017 RMB'000	As of 31 December 2016 RMB'000
Impaired loan ratio[1]	1.5%	1.4%
Balance of impaired loans (RMB'000)	32,931	26,985
Gross outstanding loans and advances to customers (RMB'000)	2,144,943	1,889,520
Provision coverage ratio[2]	275%	305%
Allowances for impairment losses[3] (RMB'000)	90,553	82,356
Balance of impaired loans (RMB'000)	32,931	26,985
Provision for impairment losses ratio[4]	4.2%	4.4%
Balance of overdue loans (RMB'000)	34,533	31,037
Gross outstanding loans and advances to customers (RMB'000)	2,144,943	1,889,520
Overdue loan ratio[5]	1.61%	1.64%

Notes:

(1) Represents the balance of impaired loans divided by the gross outstanding balance of loans and advances to customers. Impaired loan ratio indicates the quality of our loan portfolio.

(2) Represents the allowances for impairment losses on all loans divided by the balance of impaired loans. The allowances for impairment losses on all loans include provisions provided for loans which are assessed collectively and provisions provided for impaired loans which are assessed individually. Provision coverage ratio indicates the level of provisions we set aside to cover probable loss in our loan portfolio.

(3) Allowances for impairment losses reflect our management's estimate of the probable loss in our loan portfolio.

(4) Represents the allowances for impairment losses divided by the balance of the gross outstanding loans and advances to customers. Provision for impairment losses ratio measures the cumulative level of provisions.

(5) Represents the overdue loans divided by the balance of the gross outstanding loans and advances to customers.

Total impaired loans

Our balance of impaired loans increased from RMB27.0 million as of 31 December 2016 to RMB32.9 million as of 31 December 2017, mainly due to the increase in our balance of loans as of 31 December 2017.

Total overdue loans

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

	As of 31 December 2017 RMB'000	As of 31 December 2016 RMB'000
Unsecured loans	21,470	12,253
Guaranteed loans	11,379	9,897
Collateralized loans	1,684	8,887
Total overdue loans	34,533	31,037

We had overdue loans of RMB31.0 million and RMB34.5 million as of 31 December 2016 and 31 December 2017, respectively, accounting for approximately 1.64% and 1.61% of our gross loan balance as of the same dates. As at 23 March 2018, RMB1,378,000 among the overdue loans as of 31 December 2017 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 and commission expenses on bank and other borrowings which are principally used to expand our business and meet our 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:

	2017 RMB'000	2016 RMB'000
Interest income from		
Loans and advances to customers	313,495	242,370
Cash at banks	806	990
Total interest income	314,301	243,360
Interest and commission expenses from		
Borrowings from banks	(9,474)	(11,791)
Borrowings from non-bank financial institutions	(32,514)	(12,277)
Bank charges	(1,476)	(71)
Total interest and commission expenses	(43,464)	(24,139)
Net interest income	270,837	219,221

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 loans increased during the reporting period, generally in line with the size of our capital base, which is in turn affected by the size of our registered capital and financing. As of 31 December 2016 and 2017, our loan balance was RMB1,889.5 million and RMB2,144.9 million, respectively, and the increase in our loan balance in the aforesaid period is mainly due to strong demand for loans from customers. For the years ended 31 December 2016 and 2017, our average interest rates for loans were 15.2% and 15.4%, respectively. Our average loan interest rate basically remained stable during the aforesaid period mainly because we continued to serve customers with stronger repayment ability in 2017 to whom we charged relatively more competitive interest rates.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions as well as bank charges, were RMB24.1 million and RMB43.5 million for the years ended 31 December 2016 and 2017, respectively. We incurred interest expenses primarily on the interest payment on bank loans and non-bank institutions borrowings, including debt securities issued, borrowing from third parties under a repurchase agreement and borrowings from other third parties, which were principally applied to expand our loan business.

Our balance of bank loans amounted to RMB100 million and RMB180 million as at 31 December 2016 and 2017, respectively. Our balance of borrowings from non-bank financial institutions amounted to RMB428.3 million and RMB352.5 million as at 31 December 2016 and 2017, respectively. During the reporting period, our interest expense increased, which was mainly attributed to the increase in our borrowings and increase in bank charges.

Our net interest income for the years ended 31 December 2016 and 2017 were RMB219.2 million and RMB270.8 million, respectively.

Other net income

Our other net income for the years ended 31 December 2016 and 2017 were RMB22.9 million and RMB5.3 million, respectively. Our other net income in the aforesaid period decreased, mainly because we received our government grants for the year of 2017 in 2018.

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 losses. Our management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

For the years ended 31 December 2016 and 2017, our impairment losses were RMB0.8 million and RMB17.4 million, respectively.

Administrative expenses

Our administrative expenses mainly include: (i) tax and surcharge; (ii) staff costs, such as salaries, bonuses and allowances paid to employees, social 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 other 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:

	2017 RMB'000	2016 RMB'000
Tax and surcharge	**2,108**	4,799
Staff costs	**18,059**	12,087
Office expenditures and travel expenses	**4,618**	3,759
Operating lease charges	**2,262**	882
Depreciation and amortization expenses	**2,196**	1,925
Consulting and professional service fees	**10,730**	9,732
Business development expenses	**2,238**	1,099
Advertising expenses	**3,418**	2,985
Others	**3,814**	3,106
Total administrative expenses	**49,443**	40,374

Our staff costs accounted for approximately 29.9% and 36.5% of the total administrative expenses for the years ended 31 December 2016 and 2017, respectively. Our staff costs increasing from RMB12.1 million for the year ended 31 December 2016 to RMB18.1 million for the year ended 31 December 2017 was mainly attributable to (i) additional employees we hired due to the expansion of our loan business and (ii) the full-year effect of staff costs from Xingyao Micro-finance which we acquired in November 2016 for employment.

Income tax

Our income taxes for the years ended 31 December 2016 and 2017 were RMB50.3 million and RMB53.5 million, respectively, and our effective tax rates were 25.1% and 25.6%, respectively.

Profit and total comprehensive income for the year

As a result of the foregoing, we had profit for the year of RMB150.5 million and RMB155.9 million for the years ended 31 December 2016 and 2017, respectively.

Liquidity and capital resources

Our working capital and other capital requirements are mainly financed by equity investments from the Shareholders, interest-bearing borrowings, debt securities issued and cash flows from operations. Our working capital and capital requirements are primarily related to extending loans and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity level that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than the bank loans we obtain from commercial banks and the financings on the platform of 浙江股權交易中心 (Zhejiang Equity Exchange Centre*), we may also consider conducting financing, transfer and repurchase financing of certain loans on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*) or other investments plans or choices. Nevertheless, as at the date of this report, we do not have any firm intention or formulated any specific plan on material external financing in the short term.

WORKING CAPITAL MANAGEMENT

Cash flows

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

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents at the beginning of year	29,208	82,572
Net cash used in operating activities	(14,608)	(44,044)
Net cash generated from/(used in) investing activities	15,557	(207,722)
Net cash generated from financing activities	7,082	198,727
Net increase/(decrease) in cash and cash equivalents	8,031	(53,039)
Effect on the change of exchange rate	(4)	(325)
Cash and cash equivalents at the end of year	37,235	29,208

Net cash used in operating activities

Our cash generated from operating activities primarily consisted of interest income from loans we grant to customers. Our cash used in operating activities primarily consisted of loans and advances we extend to our customers and various taxes.

We account equity contributions from the Shareholders, interest-bearing borrowings and debt securities issued as cash generated from financing activities, while we utilize such cash for granting new loans to customers and classify it as cash used in operating activities and, as a result, we typically account it as net cash used in operating activities. Due to the loan granting 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 used in operating activities for the year ended 31 December 2017 was RMB14.6 million. Our net cash used in operating activities reflected: (i) our profit before tax of RMB209.4 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB17.4 million, depreciation and amortization of RMB2.2 million, interest expenses of RMB42.0 million, investment income of RMB2.5 million; (ii) the effect of changes in working capital, primarily including an increase in total loans and advances to customers of RMB264.1 million, a decrease in interest receivables and other assets of RMB0.6 million, and an increase in accruals and other payables of RMB20.5 million; and (iii) income tax paid of RMB40.1 million.

Net cash generated from/(used in) investing activities

For the year ended 31 December 2017, our net cash generated from investing activities was RMB15.6 million. Our net cash for investing activities mainly consisted of: (i) redemption of wealth management products after deducting net inflow upon purchase of RMB45.2 million, (ii) income of RMB2.5 million received from the purchase of wealth management products; which was partially offset by (i) investment paid for the acquisition of Xingyao Micro-finance amounting to RMB9.5 million; (ii) payment for the purchase of real estates, equipment and repairment of RMB16.7 million and (iii) payment of original shareholders' dividends prior to the acquisition of Xingyao Micro-finance amounting to RMB5.9 million.

Net cash generated from financing activities

For the year ended 31 December 2017, our net cash generated from financing activities was RMB7.1 million. Our net cash generated from financing activities consisted of: (i) the receipt of RMB640.0 million from financing from interest-bearing borrowings; (ii) the receipt of RMB173.2 million from the financing by issuance of debt securities, which was partially offset by (i) repayment of financing from debt securities amounting to RMB425.0 million; (ii) repayment of financing from interest-bearing borrowings amounting to RMB345.0 million; (iii) payment of interest on borrowings of RMB35.6 million; and (iv) payment of cash dividends from Jinhui Micro-finance to minority shareholders amounting to RMB0.5 million.

Cash management

As our business primarily relies on our available cash, we normally set aside a sufficient amount of cash for meeting our general working capital needs, such as administrative expenses and payment of interests on borrowings from banks and non-bank financial institutions, and use the remainder for granting loans to our customers. As at 31 December 2016 and 2017, total cash and cash equivalents amounted to RMB29.2 million and RMB37.2 million, respectively.

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 2017 RMB'000	As of 31 December 2016 RMB'000
Cash in hand	1	2
Cash at banks	27,223	23,152
Other currencies cash	10,011	6,054
Cash and cash equivalents	37,235	29,208

Interest receivables

Our interest receivables as of 31 December 2016 and 2017 were RMB19.0 million and RMB20.4 million, respectively. Our outstanding interest receivables basically remained stable.

Loans and advances to customers

Our loans and advances to customers reflected 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 2017 RMB'000	As of 31 December 2016 RMB'000
Corporate loans	532,020	547,212
Retail loans	1,289,175	1,024,138
Micro-loans granted online	323,748	318,170
Gross loans and advances to customers	2,144,943	1,889,520
Allowances for impairment losses		
— Collectively	(64,935)	(64,884)
— Individually	(25,618)	(17,472)
Total allowances for impairment losses	(90,553)	(82,356)
Net loans and advances to customers	2,054,390	1,807,164

As at 31 December 2017, our gross loans and advances to customers increased to RMB2,144.9 million, which was mainly resulting from our increased business scale.

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 2017 RMB'000	As of 31 December 2016 RMB'000
Due within three months	137,347	49,318
Due between three months and six months	501,943	484,343
Due between six months and one year	1,475,071	1,319,864
Due more than one year	30,582	35,995
Gross loans and advances to customers	2,144,943	1,889,520

We had overdue loans of RMB31.0 million and RMB34.5 million as at 31 December 2016 and 2017, respectively, accounting for approximately 1.64% and 1.61% of our gross loans and advances to customers as of the respective dates.

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

	As of 31 December 2017 RMB'000	As of 31 December 2016 RMB'000
Unsecured loans[1]	**269,879**	170,888
Guaranteed loans	**1,813,468**	1,651,250
Collateralized loans	**61,546**	59,602
Pledged loans	**50**	7,780
Gross loans and advances to customers	**2,144,943**	1,889,520

Note:

(1) Our unsecured loans are generally 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, which accounted for approximately 87.4% and 84.5% of our gross loans and advances to customers as at 31 December 2016 and 2017, respectively.

OTHER ASSETS

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

	As of 31 December 2017 RMB'000	As of 31 December 2016 RMB'000
Prepaid principal and interests of debts issued	**—**	25,798
Prepaid income tax[1]	**—**	205
Prepayment	**1,642**	5,424
Others	**1,756**	232
Total other assets	**3,398**	31,659

Note:

(1) Prepaid income tax represents the over-paid income tax by Jinhui Micro-finance as at 31 December 2016.

Our other assets during the aforesaid period decreased by RMB28.3 million, which was mainly attributable to the fact that on 31 December 2016, we repaid the placement debt (fourth tranche-1) for micro-loan company of RMB25.8 million in advance of its due date on 4 January 2017 as prepayment as of 31 December 2016, which upon its due date was applied to offset the outstanding placement debt.

Accruals and other payables

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

	As of 31 December 2017 RMB'000	As of 31 December 2016 RMB'000
Value-added tax payable	**1,638**	978
Tax and surcharges and other taxation payable	**242**	150
Accrued staff costs	**3,890**	3,453
Interest payable	**5,116**	503
Acquisition consideration payable	**506**	9,966
Other payables	**27,206**	13,783
Total accruals and other payables	**38,598**	28,833

Current tax liabilities

Our current tax liabilities, which represent payables of our income tax, were RMB11.6 million and RMB26.3 million, respectively, as of 31 December 2016 and 2017.

Capital commitments

Our statutory capital commitments were RMB16.4 million as of 31 December 2017 (2016: nil).

Key Financial Indicators

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

	As of 31 December 2017	As of 31 December 2016
Return on weighted average equity (%)	**10.3**	10.6
Average return on assets (%)[1]	**7.3**	8.5

Note:

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

The slight decrease in our weighted average return on equity and average return on assets was mainly due to an increase of weighted average net assets and average total assets for the year ended 31 December 2017 as compared with that for the year ended 31 December 2016.

Gearing Ratio

	As of 31 December 2017	As of 31 December 2016
Gearing ratio (%)[1]	32.6	35.4

Note:

(1) Represents the sum of interest-bearing borrowings and debt securities issued less cash and cash equivalents and restricted deposits, divided by total interests attributable to equity Shareholders as of the end of the periods.

Our gearing ratio decreased from approximately 35.4% as at 31 December 2016 to approximately 32.6% as at 31 December 2017, which was mainly attributable to an increase of total interests attributable to equity shareholders of the Company as at 31 December 2017 as compared with that as at 31 December 2016.

Related party transactions

For details, please refer to the paragraph headed "Related Party Transactions" in the section headed "Report of the Directors" of this report.

INDEBTEDNESS

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

	As of 31 December 2017 RMB'000	As of 31 December 2016 RMB'000
Interest-bearing borrowings	532,500	250,000
Debt securities issued	—	278,283
Total	532,500	528,283

The balance of interest-bearing borrowings as of 31 December 2017 will expire within one year and are at fixed interest rates. These borrowings were required for our business expansion.

OFF-BALANCE SHEET ARRANGEMENTS

As of 31 December 2017, we did not have any off-balance sheet arrangements (2016: nil).

EMPLOYMENT AND EMOLUMENTS

As of 31 December 2017, the Company had approximately 140 employees (2016: 118). 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.

SIGNIFICANT INVESTMENT

Save and except for the wealth management products issued by banks in the PRC, the Group had no significant investments during the year ended 31 December 2017.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save for the Corporate Reorganisation as disclosed under the paragraph headed "Events After The Reporting Period" in the section headed "Report of the Directors" of this report, the Group had no material acquisition or disposal of subsidiaries, associates and joint ventures during the year ended 31 December 2017.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities (2016: nil).

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2017, the Group did not have any charges on its assets.

FOREIGN CURRENCY RISK

Foreign exchange risk arises when business transaction or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates in the PRC with most of its transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at 31 December 2017 were denominated in the respective Group companies' functional currencies.

FUTURE PLANS FOR MATERIAL INVESTMENT AND EXPECTED SOURCE OF FUNDS

Other than the bank loans we obtain from commercial banks and the financings on the platform of 浙江股權交易中心 (Zhejiang Equity Exchange Centre*), we may also consider conducting financing, transfer and repurchase financing of certain loans on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*) or other investments plans or choices. Nevertheless, as of the date of this report, we do not have any firm intention or formulated any specific plan on material external financing in the short term.

PROSPECTS

With the establishment of China Micro-credit Companies Association (中國小額貸款公司協會) and promulgation of the Classification Standards of Financial Enterprises (《金融業企業劃型標準規定》), the role played by micro-finance companies in the PRC is being increasingly recognized by the relevant authorities and the micro-finance industry and 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 help cultivating local financial services industry. 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 that Deqing will continue to enjoy economic stability and provide us with a relatively conductive 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.

In July 2015, our acquisition of Jinhui Micro-finance located in Deqing county helped the continuous expansion of our business in Deqing, which in turn further improved our market penetration rate of AFR (三農) customers.

In November 2016, our competitive advantages have been further enhanced as we acquired Xingyao Micro-finance located in Hangzhou City, Zhejiang province of the PRC which expanded our offline business to Hangzhou.

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 for cooperation 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 annualised interest rate shall not exceed 15%. The Cooperation marks a positive development of the Company and the official commencement of our online finance business. Such expansion in the scope of business will continue to enable us to diversify our revenue stream, open up channel for the provision of lending services to online retailers, and break through the geographical limitation for our business.

The Company is currently in the course of obtaining approvals from relevant PRC authorities in relation to the surrender of its micro-finance license on its entity level and transforming it into a holding company. Subject to approvals, the Group will be able to have more flexibility in exploring, identifying and grasping suitable business development opportunities. The Group will further optimize its financing structure and enhance its market competitiveness.

USE OF PROCEEDS

The H Shares 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 have been applied for expanding the capital base of our loan business, in the accordance with the manner as set out in the prospectus of the Company dated 30 December 2014.

Biographies of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Yu Yin (俞寅), aged 31, is the 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)). From July 2015, Mr. Yu acted as the chairman of Jinhui Micro-finance, a subsidiary of the Company. Since June 2016, Mr. Yu Yin is the chairman of the board of directors at Deqing Yulong Tourism Development Company Limited* (德清御龍旅遊開發有限公司) and Deqing County Anli Tourism Development Company Limited* (德清郡安里旅遊開發有限公司). Since December 2015, Mr. Yu Yin is the vice chairman of the board of directors at Zuoli Holdings.

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 report, Mr. Yu was interested in 44.89% of the Domestic Shares.

Mr. Zheng Xuegen (鄭學根), aged 53, is the executive Director, and the vice chairman, deputy general manager and secretary to the 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. He is also a member of the Loan Approval Committee.

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. From July and August 2015 and from December 2016, Mr. Zheng serves as the directors of Jin Hui 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) and Xing Yao Micro-finance, the subsidiaries of the Company, respectively.

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 report, Mr. Zheng was interested in 0.34% of the Domestic Shares.

Mr. Yang Sheng (楊晟), aged 43, is the executive Director, the Chief Operating Officer and the vice chairman of the Board. 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. From December 2016, Mr. Yang serves as the chairman of the board of directors at Xingyao Micro-finance, a subsidiary of the Company.

Mr. Hu Haifeng (胡海峰), aged 52, is the executive Director and general manager of the Company. Mr. Hu is responsible for the Company's business management. He is the chairman of the Loan Approval Committee. 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. From July 2015, Mr. Hu acted as the director of Jinhui Micro-finance, a subsidiary of the Company.

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 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 44, was appointed as the 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 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 46, was appointed as the 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. Mr. Ho is a qualified professional accountant with over 18 years of experience in auditing, accounting and financial management. He is an associate member of the Hong Kong Institute of Certified Public Accountants. He held senior position in a number of public and holding companies in Hong Kong. He graduated from the Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) with a honours diploma in accounting in July 1996. Currently, Mr. Ho is the chief financial officer and the company secretary of Future Bright Mining Holdings Limited* (Stock code: 2212), and an independent non-executive director of each of Wuxi Sunlit Science and Technology Company Limited* (Stock code: 1289) and King Force Group Holdings Limited* (Stock code: 8315), respectively, the shares of which are listed on the Main Board or the GEM of the Stock Exchange.

Mr. Jin Xuejun (金雪軍), aged 59, was appointed as the independent non-executive Director on 28 April 2014. Mr. Jin is also a member of the Audit Committee and Nomination Committee and a chairman of the Remuneration and Appraisal Committee of the Board.

Mr. Jin Xuejun has 32 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. Mr. Jin has been an independent non-executive director of 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) between November 2013 and October 2016. 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 and 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. Mr. Jin has also been an executive director of Hakim Information Technology Co., Ltd.* (漢鼎信息科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300300), since February 2014. Mr. Jin has been an independent non-executive director of Huaan Securities Co. Ltd. (華安證券股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600909) and China Zheshang Bank Co., Ltd. (浙商銀行股份有限公司), a company listed on the Stock Exchange (stock code: 2016) since 2015 and March 2016, respectively.

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 55, was appointed as the 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, China Calxon Group Company Limited* (嘉凱城集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000918), from August 2009 to March 2016. She has also been an independent non-executive director of Zhejiang Kangsheng Co., Ltd. (浙江康盛股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002418), 浙江友邦集成吊頂股份有限公司, a company listed on the Shenzhen Stock Exchange (stock code: 002718) and Shenghua Lande Scitech Limited* (浙江升華蘭德科技股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 8106) since July 2013, March 2016 and May 2017.

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 50, was appointed as the 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. Since March 2017, Mr. Dai Shengqing worked as a general manager in Deqing County Anli Tourism Development Company Limited* (德清郡安里旅遊開發有限公司), 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 44, was appointed as the 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 36, was appointed as the 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. From August 2016, Ms. Shen serves as the head of the network finance affairs department of the Company. From October 2016, Ms. Shen has been redesignated as the head of the approval center of the Company.

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

SENIOR MANAGEMENT

Ms. Fei Xiaofang (費曉芳), aged 49, joined the Company as the deputy general manager in June 2015. Ms. Fei is a member of the Loan Approval Committee. 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 37, 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 is a member of the Loan Approval Committee. 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 has served as a director of Jinhui Micro-finance, a subsidiary of the Company since July 2015. Ms. Hu has served as a supervisor of Xing Yao Micro-finance, a subsidiary of the Company since December 2016.

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 44, joined our Predecessor Company as a customer relationship manager in April 2012. Mr. Huang is currently a member of the Loan Approval Committee. 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. Since February 2017, Mr. Huang worked as a deputy general manager of the Company. He is now overseeing the risk management and the overall risk control system of the Company.

Environmental, Social and Governance Report

EXPLANATION ON REPORT PREPARATION

Scope of Report Time:

This report is an annual report with a time spin between 1 January 2017 and 31 December 2017 (except when specifically indicated).

Scope of Report Organization:

It covers Company and three subsidiaries (hereunder the "**Group**").

Basis for Report Preparation:

This report is prepared based on the Stock Exchange of Hong Kong's "Guide for Environmental, Social and Governance Reporting" ("**Guide for ESG Reporting**").

Data Explanation:

In the report, some of the financial data is from the audited annual financial statements of the Company for 2017 (which have been audited by KPMG). Other data is mainly from the Group's internal system and the statistics from the respective subsidiaries.

Guarantee Method for the Report:

This report has been submitted to KPMG Huazhen LLP to conduct limited assurance on selected key data in accordance with the "Hong Kong Standard on Assurance Engagements 3000 — Assurance Engagements Other than Audits or Reviews of Historical Financial Information (Revised)" (HKSAE 3000).

Consideration of the Report:

It has been considered and passed by the Board.

Publication Method of the Report:

This report is published in printed form and electronic form, and the electronic form is available at the Company's website (www.zlkcxd.cn).

Contact Method:	Office of Board
Address:	No. 57–67, Dongsheng Road, Wukang Road, Deqing County, Zhejiang, the PRC
Postal Code:	313200
Facsimile Number:	0572-8219779

CHAIRMAN'S STATEMENT

The year of 2017 was a truly remarkable year. During the year, China's government authorities issued relevant policies and regulations, which present us with both opportunities and challenges. Facing to a changing market situation, the Company has always persisted in serving the real economy, adhered to the principle of "small and diverse", implemented the business philosophy of seeking sustainable development, strengthened risk management and promoted inclusive finance.

The Company is a young and energetic new force in the financial market. As the largest licensed micro-finance company in Zhejiang Province, the Group is committed to providing financing solutions with flexible terms to AFR (三農) customers, SMEs and online retailers via rapid, effective and comprehensive loan assessment and approval procedures to meet different needs. The Group always adheres to the concept of "compliant operation" and has continuously accumulated strong capital base to establish extensive customer bases in line with its business scale.

Since the inception of the Company, the Group proactively responds to the advocate of government policies on supporting "AFR (三農)", places its business focus on helping farmers, agriculture and villages related operating activities, and seriously dealt with the issue of difficult financing for local SMEs in Huzhou City. As such, the Company's key customers primarily consist of customers engaging in AFR (三農), SMEs and micro enterprises engaging in different kinds of business lines, as well as online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products. To respond to the advocate on national environmental protection policies, the Company has granted loans to environmental protection entities on public gardening and greening fields to support their business development while declined the provision of loans to those enterprises with high energy consumption, high pollution and high emission level. On top of the above, the Group has also implemented relevant measures on low carbon operation, and made internal protocol in the form of regulatory system and firmly achieved electricity, water and power conservation. Meanwhile, in order to actively respond to the pilot green finance reform program in Huzhou, we have insisted on green and scientific development, launched new green financial products under the existing consumption loan model, and actively extended loans to support the development of new-type ecological tourism and minshuku, new energy industry and other environmental-friendly and energy-saving industries. We have also vigorously developed green agricultural loan business including ecological breeding loans to promote the development of a green economy in the region.

In terms of the assumption of social responsibilities, "donation of warm clothes for students in Yushu primary school" has become an internal traditional campaign of the Company. In cooperation with "Yinxing Fund", the Group expresses its condolences and care to disadvantaged families in the county. Through the labour union, the Company provides the disabled with consolation funds in the county and loans for the disadvantaged groups totalling RMB1.8 million, with total loans granted to education system amounting to RMB40.25 million in aggregate. The Company strongly supported poor students and provided interest-free grants and loans to them.

The Group strives to maintain a high standard of corporate governance. Adhering to protecting the lawful interests of our clients, anti-money laundering, anti-counterfeit money, combating illegal fund-raising and anti-corruption, the Group have implemented measures to strictly comply with the relevant legislations and regulations of the stock exchange where the Group's shares are listed on. Being a listed company, the Group puts strong emphasis on safeguarding the interests of Shareholders. The Board has established the following committees: the Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Loan Approval Committee to form an accountability system to ensure decisions made by the Group's senior management are complied with the internal control system and regulatory requirements and in the interests of Shareholders.

With the integrated development of the Company, its business scale continues to expand and its product offerings become more diversified. In order to standardize the business operation of the Company and its subsidiaries, the Company have developed a business operation system tailored to its own characteristics and needs, which not only provided technical support for the business operation, risk control and finance management of the Company, but also laid the foundation for a standardized credit model.

The transformation of financial markets is an irreversible trend of economic development of the PRC. During this phase, opportunities coexist with challenges, which remind us to always keep a sense of crisis. In view of this, the Company will continue to make innovations and progress, and make active efforts in business transformation and deployment. With micro-finance as our core business, we will actively promote business transformation and upgrading, and move towards the goal of becoming a more diversified and professional new finance platform, so as to continue to enhance our core competitiveness.

1. ABOUT US

1.1. Company Profile

The Company (formerly known as "Deqing Zuoli Kechuang Micro-finance Company Limited* 德清佐力科創小額貸款有限公司") was incorporated on 18 August 2011. On 28 April 2014, the Company was converted into a joint stock limited liability company. On 13 January 2015, the shares of Zuoli Kechuang Micro-finance Company Limited successfully listed on the Hong Kong Stock Exchange (stock code: 6866).

The Company is currently located in Deqing County, Huzhou City, Zhejiang Province. In 2015, the Company successfully acquired Deqing Jin Hui Micro-finance Co., Ltd (德清金匯小額貸款有限公司). In 2016, the Company successfully acquired Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co., Ltd) 杭州市高新區(濱江)興耀普匯小額貸款有限公司). In terms of registered capital, the Group is currently the largest micro-finance company in Zhejiang Province. The Company is in the course of obtaining approvals from relevant PRC authorities in relation to the surrender of its micro-finance license on its entity level and transforming itself to a general holding company.

Facing the current economic conditions, the Group adhered to our development strategies, enhancing professional development, cooperating with different platforms, diversifying assets and internet-oriented development:

(1) Enhancing Professional Development. For the purpose of facilitating marketing, management and promoting economies of scale, the Group set clear market positions, focused on our target customers and standardised assets to products. Additionally, such approaches are beneficial to acquire low cost financing and ultimately improve our management standard;

(2) Enhancing cooperation with different platforms. Through own development and cooperation with different platforms, the Group will fully utilise cluster resources on social platforms;

(3) Diversifying assets. Banking homogeneity competes with single type of product. The future development will be abandoning full credit products; and;

(4) Enhancing internet-oriented development. The Group will continue to develop innovative financial products, diversify development, and break the bottlenecks of regions and policies. We will achieve asset transactions through the internet to improve our efficiency and quality of services.

1. ABOUT US (Continued)

1.1. Company Profile (Continued)

1.1.1. Corporate Culture

Corporate culture is the soft power of corporate development. Culture matching with the development of the Company will strengthen the staff cohesion and encourage them to provide better services for achieving the Company's strategies. The Group continues to develop its business while emphasize on cultivating corporate culture. The Group have already established a culture system focusing on vision, mission, core values, and philosophies of operational management, talent and responsibility.

Vision: Creating an innovative and comprehensive financial platform

Mission: Assisting in customers' development, concerning staff development, performing corporate responsibilities, enhancing shareholders' value

Core values: Honesty, innovation, responsibility, win-win

Philosophy of Operational Management: Stringent, flexible, efficient, united, sincerity, amiability

Philosophy of Talents : Without sticking only to one specific pattern, pay equal attention to ability and integrity

Philosophy of responsibilities: Developing innovative financing business, taking social responsibilities and promoting diversified development

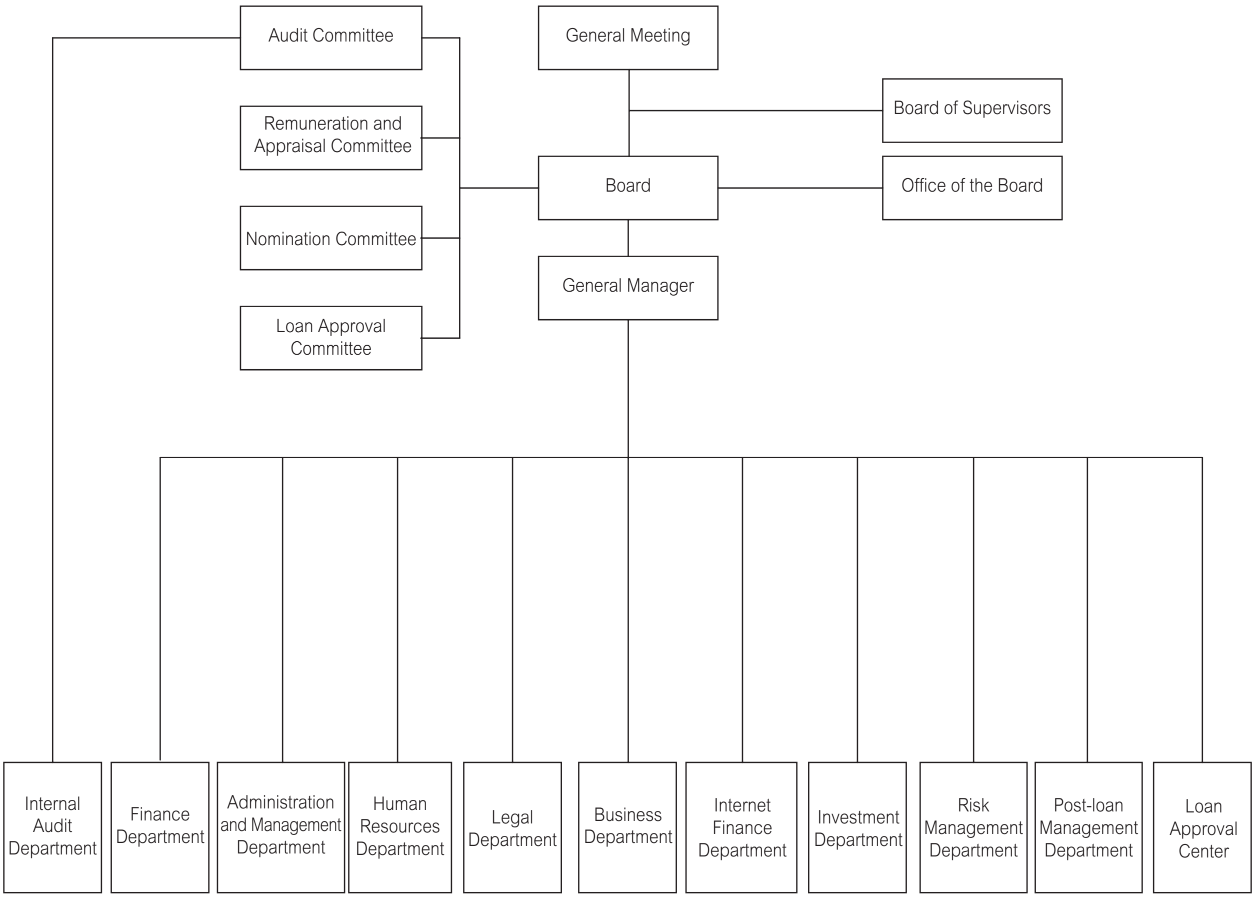
1. ABOUT US (Continued)

1.1. Company Profile (Continued)

1.1.2. Corporate Governance

The Group is committed to maintain a high standard of corporate governance and publicly safeguard the interests of Shareholders. (Please refer to Corporate Governance Report for details)

Corporate Governance Structure:



1. ABOUT US (Continued)

1.2. Table of Key Performance

Key Performance Indicators[1]	Unit	2017	2016
Economic Performance			
Net interest income	Ten thousands RMB	**27,084**	21,922
Total profit	Ten thousands RMB	**20,938**	20,087
Net profit attributable to shareholders of the parent Company	Ten thousands RMB	**14,883**	14,615
Basic earnings per share	RMB	**0.13**	0.12
Total assets	Ten thousands RMB	**221,726**	203,327
Total liabilities	Ten thousands RMB	**59,739**	56,869
Impaired loan ratio	%	**1.54**	1.43
Provision coverage ratio	%	**274.98**	305.19
Social Performance			
Total taxes paid	Ten thousands RMB	**5,692**	7,885
Total donations	Ten thousands RMB	**4**	3
Total employees	person	**140**	118
Including: Male employees	person	**66**	55
Female employees	person	**74**	63
Ethnic-minority employees	person	**2**	1
Turnover rate of employees (under contracts)	%	**15.00**	4.24
Total training input	Ten thousands RMB	**198**	4
Social contribution per share	RMB/share	**0.22**	0.21
Environmental Performance			
Remaining balance of internet loans	Ten thousands RMB	**32,375**	31,817
Per capita urban electricity consumption	degree/person	**1,779.30**	1,495.95
Per capita urban water consumption	ton/person	**18.83**	20.41
Per capita Xerox paper consumption	kilogram/person	**5.23**	3.58

[1] Indicators in the above table are data of "the Group"

1.3. Honours

The operational strategy of the Group is strengthening the leading role of the Group in the industry of microfinance companies in Zhejiang province, promoting the Group to become the first priority of non-bank credit for customers in its regions of operation. Additionally, the Group plays an active role in taking relevant environmental, social and economic responsibilities. The Group continues to reinforce corporate governance, strongly supports education and "AFR (三農)" business in the regions of operation and provides the poor families and disabled with consolation funds in order to contribute our efforts to create a harmonious and sustainable social environment.

1. ABOUT US (Continued)

1.3. Honours (Continued)

During the reporting period, the Group received the following social recognitions:

In February 2017, the Group was awarded the "Rising Star of Corporation in Services 2016* (2016年度服務業成長之星企業)" by the People's Government of Deqing.

In March 2017, the Group was awarded the "Advanced Unit in Finance Businesses 2016* (2016年度金融工作先進單位)" by the People's Government of Deqing.

In April 2017, the Group was awarded the "Outstanding Unit of Financial Institution Supporting Agriculture and Small Enterprises 2016* (2016年度金融機構支農支小優秀單位)" by the People's Government of Zhejiang.

In June 2017, the Group was awarded the "Grade A+ Outstanding Micro-finance Company of Zhejiang Province* (浙江省A+級優秀小額貸款公司)" by the Financial Work Office of the People's Government of Zhejiang Province* (浙江省人民政府金融辦公室).

1.4. Analysis of Stakeholders

To promote the development of the Company, the Group further improved the communication with stakeholders and responded to demands of stakeholders in a timely and sincere manner in 2017.

The stakeholders recognized by the Group include:

Stakeholder	Expectations and demands	Forms of Communication	Response Measures
Government	1. Facilitating economic development 2. Adhering to Anti-corruption and clean governance 3. Energy conservation and emission reduction 4. Green operation	1. Government documents 2. Interviews 3. Reporting statistics and data 4. National initiative 5. Green clarity activities	1. Facilitating economic development of the regions of operation 2. Supported micro enterprises and AFR (三農) 3. Steady increase in taxes paid 4. Promoted paperless office 5. Promoted energy conservation and emission reduction in operation
Regulatory bodies	1. Compliance with regulations 2. Risk management and control 3. Order maintenance in financial sector	1. Policies and regulations 2. Year-end appraisal 3. Industry conference 4. Reporting	1. Enhance corporate governance 2. Compliance with regulatory policies and regulations 3. Stringent control of risk 4. Performance assessment
Shareholder	Enhance corporate governance	1. Shareholders' meeting 2. Periodic announcements	1. Steady operation, optimising allocations of dividends 2. Improved operational performance

1. ABOUT US (Continued)

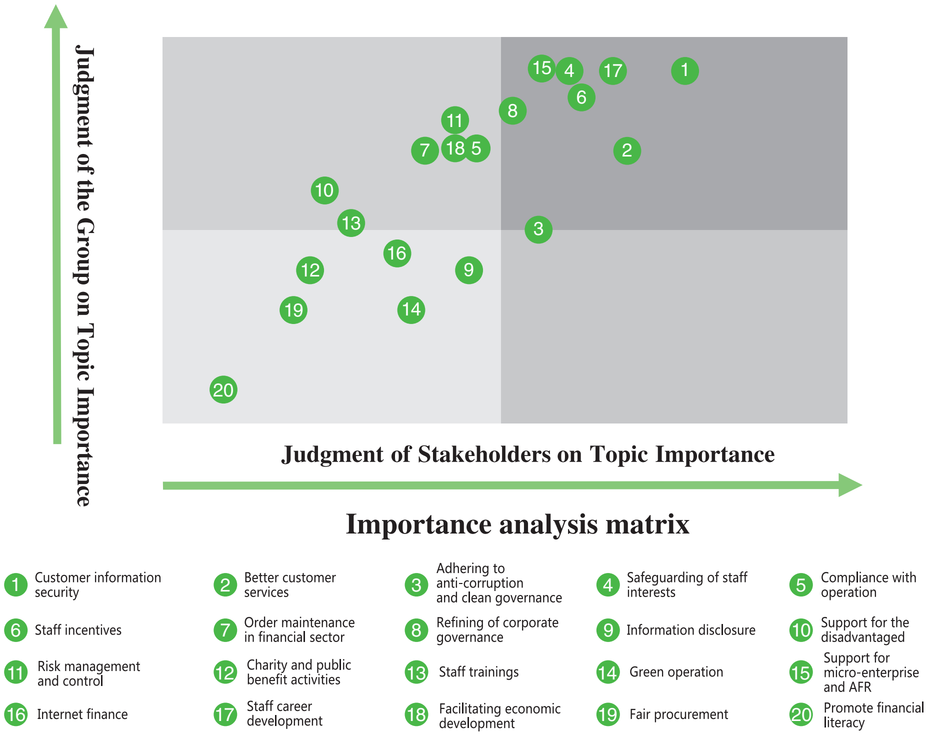
1.4. Analysis of Stakeholders (Continued)

Stakeholder	Expectations and demands	Forms of Communication	Response Measures
Customer	1. Customer information security 2. Internet finance 3. Supporting micro enterprises and AFR 4. Better customer services 5. Assist the disadvantaged 6. Information disclosure	1. Customer feedbacks 2. Official website 3. Third party platform	1. Further developed Internet finance 2. Better protection of customer interests 3. Better service quality 4. Increase loans to micro enterprises and AFR (三農) 5. Provide supporting loans for the disadvantaged 6. Improve the information disclosure process
Supplier	Fair procurement	1. Procurement information 2. Negotiations 3. Procurement contract	1. Refined management system of suppliers 2. Establishment of long-term partnership with suppliers
Employee	1. Staff career development 2. Safeguarding staff interests 3. Staff remuneration and benefits 4. Staff trainings	1. Employee representatives' congresses 2. Periodic internal communication	1. Safeguarded basic interests of staff 2. Organized cultural and sports activities and trainings 3. Listened to employee viewpoints 4. Refined remuneration and incentive schemes
Community	Charity and public benefit activities	Field visits	Organized charity and public benefit activities

1. ABOUT US (Continued)

1.5. Importance analysis matrix

The Group identified topics according to the requirements under Guide for ESG Reporting and survey results after considering the demand of stakeholders and the long-term development strategies of the Company.



2. ECONOMIC RESPONSIBILITIES

Zhejiang Province is one of the provinces with the smallest difference of economic development in the PRC. Its economic development mainly relies on the robust growth of SMEs. Along with the gradual change of the economic development pattern in the PRC, diversified and dynamic SMEs and micro enterprises play more and more vital roles in the market.

The rapid growth of the Group in a short period relied on the economic support of the regions of operation. Being one of the few listed companies in Huzhou City, the responsibilities of the Group lay in supporting the economic development and improving the livelihoods in the regions of operation. The Group committed to provide supply chain finance services to customers, especially SMEs. This systematic financial arrangement targeting all members in a supply chain not only achieved mutual benefits and win-win situations between the Group and our customers, but also provided a more convenient financing channel for small-to-medium enterprises.

The Zhejiang Financial Office (2015) No. 75 document on Promoting the Innovative Development of Micro-finance Company* (關於促進小額貸款公司創新發展的浙金融辦[2015]75號文件) is promulgated by the Financial Work Office of Zhejiang Provincial Government* (浙江省人民政府金融辦公室). Pursuant to the document, the Group lifted the importance of support to "AFR (三農)" and micro-enterprises to the level of fundamental strategies of the Company.

2.1. Promoting economic development

2.1.1. Supporting local economic development

According to the requirements of the Financial Office of Zhejiang Provincial Government* (浙江省人民政府金融辦公室), non-online loans of micro-finance companies can only be invested in their regions of operation (the regions of operation of the Group are Huzhou City and Binjiang District, Hanzhou City). Therefore, non-online loans of the Group can efficiently promote the economic growth of our regions of the operation.

As at 31 December 2017, the balance of non-online loans of the Group was RMB1,821.20 million, representing an increase of RMB249.85 million as compared with RMB1,571.35 million as at 31 December 2016.

2.1.2. Supporting real economies

For the purpose of meeting the real demand of diversified and different customers and contributing to the development of real economies, various corporate loan balances granted for supporting real economies total RMB532.02 million as at 31 December 2017. As of 31 December 2016, various corporate loan balances granted for supporting real economies amounted to RMB547.21 million.

2.1.3. Supporting the growth of micro-to-small enterprises

The Group has adhered to the idea of supporting the growth of micro-to-small enterprises in our operation. In the extent of efficient risk control, the loan balance granted to sole proprietors amounted to RMB83.07 million as at 31 December 2017, representing an increase of RMB69.35 million as compared with RMB13.72 million as at 31 December 2016.

2.1.4. Supporting "AFR (三農)" development

China is a large agricultural country, whereas the "AFR(三農)" issues faced by the PRC require prompt solutions. In 2017, under the premise of effective credit risk control, the Group actively involved in resolving issues in the regions of operation through various measures. As at 31 December 2017, the Group's offline loan balance for "AFR(三農)" amounted to RMB1,016.64 million. The offline loan balance for "AFR(三農)" in 2017 increased RMB248.50 million as compared to that of RMB768.14 million in 2016.

2. ECONOMIC RESPONSIBILITIES (Continued)

2.2. Facilitating improvement in livelihood

The Group has been placing great concerns on the development of educational business. The Group endeavoured to satisfy the capital needs required by developing educational business. As at 31 December 2017, the loan balance for educational business of the Group amounted to RMB25.42 million, up by RMB22.71 million as compared to that of RMB2.71 million as at 31 December 2016. In 2017, the Group granted interest-free loans in an accumulated aggregate amount of RMB100 thousand to poverty-sticken university students in cooperation with charity organizations, up by RMB20 thousand as compared to that of RMB80 thousand in 2016.

2.3. Internet Finance

On 3 November 2015, the "Central Committee of the Communist Party of China's Proposal on Formulating the Thirteenth Five Year Plan on National Economic and Social Development (中共中央關於制定國民經濟和社會發展第十三個五年規劃的建議)" was officially promulgated. It is the first time the Internet Finance* was included in the national five year plan and regulations of Internet Finance were introduced. The Group actively responded to the National Thirteenth Five Year Plan and developed the internet loan businesses.

For the purpose of solving the problems of capital shortage of suppliers and distributors in procuring, the Group continued to launch supply chain financial products in cooperation with brand enterprises in 2017. Currently, the Group is collaborating with the brand agents and distributors such as OSMUN (歐詩漫) and TIANNENG (天能).

As at 31 December 2017, the Group's Internet loan balance amounted to RMB323.75 million, representing an increase of RMB5.58 million as compared to RMB318.17 million as at 31 December 2016.

3. ENVIRONMENTAL RESPONSIBILITIES

Since the early stage of incorporation, the Group has regarded the environmental and resource protection as our essential responsibility. The Group has strictly complied with relevant legislations and regulations such as the Atmospheric Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and the Water Law of the People's Republic of China (《中華人民共和國水法》).

3.1. Green operation

The Group applied the ideas of environmental protection in the operation. As enterprises with "three high emission indicators" (high pollution, high consumption, high emission) were the main sources of environmental pollutants, the Group did not provide any financial support to those enterprises, but tried to provide more convenient financial services to enterprises engaging in businesses which are beneficial to landscaping such as greening, nursery garden operation. Towards the end of 2015, the Group establish the Internet Finance department. Part of our businesses achieved electronic and paperless operation. The electronic operation practically achieved low carbon and environmental friendly business. In the meantime, in order to actively respond to and support the building of a national pilot area for green finance reforms and innovations in Huzhou, the Group will continue to adhere to the principle of green development.

3. ENVIRONMENTAL RESPONSIBILITIES(Continued)

3.2. Emission[2]

"Travelling by green method — Start from me" is the idea of environmental protection of the Group. The Group believes that the solution for improving air quality lays in the reduction of harmful gas emission. Accordingly, the Group formulated policies and insisted to pay great attention on the vehicle conditions in the environmental aspect when procuring vehicles for corporate use in daily operation. Also, the Company minimised its frequency of vehicle uses and encouraged its employees to travel by public transports in order to make our best effort to cultivate a good environment.

As at 31 December 2017, the Group did not emit any harmful or harmless wastes.

Waste gas emission:[3]	Unit	2017	2016
NO_x emission of vehicles	kilogram	**181.11**	118.30
NO_x emission of gaseous fuel	kilogram	**0.08**	0.06
Emission of NO_x	kilogram	**181.19**	118.36
SO_2 emission[4]	kilogram	**0.26**	0.19
Particulate emission[5]	kilogram	**17.35**	11.33

Emission of greenhouse gas[6]:	Unit	2017	2016
Direct greenhouse gas emission of fuels in stationary sources (CO_2 equivalent)	ton	**799.03**	577.56
Direct greenhouse gas emission of vehicles (CO_2 equivalent)	ton	**42.16**	31.24
Direct greenhouse gas emission and reduction (CO_2 equivalent)	ton	**841.19**	608.80
Energy indirect greenhouse gas emission (CO_2 equivalent)[7]	ton	**202.41**	143.43
Other indirect greenhouse gas emission (CO_2 equivalent)[8]	ton	**9.68**	10.98
Total greenhouse gas emission (CO_2 equivalent)	ton	**1,053.28**	763.21
Greenhouse gas emission per capita (CO_2 equivalent)	ton/person	**7.52**	6.47

2 The calculation of emissions is mainly refer to the "Environmental Key Performance Indicators Reporting Guide" published by HKEX
3 Figures in the above table are data of "the Group"
4 Mainly refers to SO_2 emission of vehicles
5 Mainly refers to particulate emission of vehicles
6 Figures in the above table are data of "the Group"
7 Mainly includes greenhouse gas emission of electricity consumption
8 Mainly includes greenhouse gas emission resulted from public transports

3. ENVIRONMENTAL RESPONSIBILITIES (Continued)

3.3 Use of Resources

The Group conserves water and electricity in the operation: In order to increase the environmental awareness of our staff, the Group included the concepts of conserving water, resources, and electricity and avoiding wastage in written form in the Articles of Association, specifically including the conditions and principles of using high electrical consumption appliances such as air conditioners, computers and lamps. Meanwhile, the Group required the staff for conserving water. The Group's water consumption per capita in 2017 was 18.83 ton/person, representing a decrease of 1.58 ton/person as compared with that of 20.41 ton/person in 2016. The Group obtains water from the water works company within its jurisdiction.

As of 31 December 2017, the Group did not produce any finished products, and did not use any packaging materials for finished products.

Use of resources[9]	Unit	2017	2016
Electricity consumption	kWh	**249,102.21**	176,522.25
Electricity consumption per capita	kWh/person	**1,779.30**	1,495.95
Oil consumption	litre	**17,866.41**	13,235.29
Oil consumption per capita	litre/person	**127.62**	112.16
Gas consumption	cubic	**554.50**	373.40
Gas consumption per capita	cubic/person	**3.96**	3.16
Water consumption	ton	**2,636.03**	2,408.00
Water consumption per capita	ton/person	**18.83**	20.41
Copy paper consumption	kilogram	**732.66**	422.17
Copy paper consumption per capita	kilogram/person	**5.23**	3.58

9 Figures in the above table are data of "the Group"

4. SOCIAL RESPONSIBILITIES

4.1. Staff

Staff is not only a component of operations, but also a base for establishing long term relationship with customers. Everything they do represents the corporate image of the Group at all times. The core duties of human resource are attracting and retaining talents. The Group facilitated the staff career development through comprehensive performance assessments and effective communication mechanisms, and improved their working ability through staff trainings.

The Group strictly complied with the relevant legislations and regulations such as the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), amongst other related regulations.

The Group respects gender, age, ethnic group and religion of every individual staff. Discrimination against the individual difference between staff is strictly prohibited. The Group complied with the relevant legislations and regulations and strictly prohibited the employment of child labor or forced labor. As at 31 December 2017, the Group did not employ any child labor or forced labor.

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

The Group encouraged the work-life balance of staff. We also led our staff to reward the society through various channels.

Statistics of staff[10]	Unit	2017	2016
Male staff	person	66	55
Female staff	person	74	63
	person	140	118
Ethnic minorities	person	2	1
Han ethnic group	person	138	117
	person	140	118
Master degree	person	1	—
Bachelor degree	person	67	49
Tertiary education level	person	51	47
Below tertiary education level (exclusive)	person	21	22
	person	140	118
30 years old and below	person	80	60
31–40 years old	person	29	25
41–50 years old	person	17	17
51 years old and above	person	14	16
	person	140	118

Statistics of staff (Continued)[11]	Unit	2017	2016
Within Zhejiang province	person	118	112
Outside Zhejiang province	person	22	6
	person	140	118
Contracted staff	person	140	118
Staff turnover	person	21	5
Turnover rate of male staff	%	21.21	5.45
Turnover rate of female staff	%	9.46	3.17
Turnover rate of staff within Zhejiang Province	%	12.71	4.46
Turnover rate of staff beyond Zhejiang Province		27.27	—
Turnover rate of staff 30 years old and below	%	11.25	5.00
Turnover rate of staff 41–50 years old	%	52.94	11.76
Turnover rate of staff 51 years old and above		21.43	—
Staff turnover rate	%	15.00	4.24

10 Figures in the above table are data of “the Group”

11 Figures in the above table are data of “the Group”

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

4.1.1. Communication

Effective communication mechanism helps to ease doubts in staff career development and encourages our staff to devote into their work. The Group gathers opinions on the Company's development and culture from our staff every year by various means, including quarterly conferences between departmental management and staff and "Let's talk about corporate culture* (企業文化大家談)".

The management and staff of the Group discussed the latest development status and future planning in time. The Group believes an efficient two-way communication between the management and staff is an essential element of the sustainable development of the Company.

4.1.2. Staff career development

The Group sets up comprehensive performance assessment system and promotion management to encourage our staff to improve their performance. The Group also provides clear promotion ladders for our staff.

For business departments, the Group assesses staff performance by specific performance indicators of different business lines. For non-business departments, the Group assesses staff performance and ability by KPI (key performance indicator).

4.1.3. Training

Staff training[12]	Unit	2017	2016
Total training expense	Ten thousands RMB	**198**	4
Training participants	Person-time	**773**	447
Training expense per capita	thousand/person	**14.14**	0.44
Total training time	Hour	**417**	221
Training time per capita	Hour/Person-time	**4.47**	3.90
Number of senior staff	person	**13**	10
Training time of senior staff per capita	Hour/Person-time	**9.59**	5.09
Number of middle staff	person	**29**	26
Training time of middle staff per capita	Hour/Person-time	**4.33**	4.43
Number of junior staff	person	**75**	62
Training time of junior staff per capita	Hour/Person-time	**3.35**	3.33
Number of male staff	person	**52**	45
Training time of male staff per capita	Hour/Person-time	**4.60**	3.76
Number of female staff	person	**65**	53
Training time of female staff per capita	Hour/Person-time	**4.36**	4.01
Number of contracted staff	person	**117**	98

12 Figures in the above table are data of "the Group"

The Group devotes adequate resources to staff trainings on professional skills, operation process, knowledge, corporate culture and morality every year in order to enhance our staff's abilities and the social influence of the Group, including staff induction trainings and several professional skill trainings after induction every year.

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

4.1.3. Training

In 2017, the Group organized its employees to attend training programs such as "strategic management and execution capability", "macro-economic and financial strategies", "how to build a team with excellent performance" and "business negotiation and conflict resolution". In 2017, the Group also arranged some of its senior management members to attend the EMBA courses taught by the School of Management of Fudan University.

4.1.4. Remuneration

The Group provided attractive remuneration packages. Also, the Group will show its best wishes and present a gift for every staff of the Group on their birthdays.

Pursuant to the requirements of Chapter 9 of the Labor Law, the Group is obliged to make timely and full contributions to "five insurance and one fund" (pension insurance, medical insurance, unemployment insurance, injury insurance, maternity insurance and housing provident fund) for all staff in accordance with local requirements. The Group arranged working and resting time of staff pursuant to the requirements of Chapter 4 of the Labor Law in the aspects of working time, working intensity and official holidays. The Group also provides paid holidays for eligible staff.

4.1.5. Work-life balance

A good balance between work and life is beneficial to facilitate better staff's performance. Apart from strict compliance to the relevant requirements of national official holidays, the Group organises various recreational activities for its staff every year.

The Group assembled all female staff to participate in a strawberry-picking activity in March 2017; the Company launched a spring hiking activity in April 2017 for its staff; in May, 2017, the Company organized the "Outward bound Quality Development" event, themed as "dedication and collaboration" for all its service staff.

4.1.6. Occupational health and safety

Occupational health and safety of the staff are always concerns of the Group. In the reporting period, the Group provided body checks for all staff and encouraged them to participate in cultural and sports activities for their health. The Group formulated regulations and organised staff trainings to increase their abilities of prevention from and emergency of fire, thus lowering the risk of occupational safety of the staff.

4.2. Supplier

All of the 12 suppliers of the Group are from Yangtze River Delta regions. Suppliers mainly provided daily office supplies, transportation facilities and renovation services to the Group. Effective supply chain management is vital to the Group's operation.

Although supply chain management is not a main scope of the Company's operation as a service company, establishing long–term and stable partnerships with suppliers will enhance the public image of the Company, and thus minimise operational risk and thereby facilitate the Company's growth. For this purpose, the Group has formulated relevant guidelines of assessments, selection and supervisions of suppliers. For assessing suppliers, the Group set multi-dimensional standards and different proportions in the aspects of quality, price, health, environment, safety and morality. In assessing suppliers, the Group will strictly comply with the standards to select qualified and high quality suppliers. In selecting suppliers, the Group will not only assess their performance according to the assessment standards, but also flexibly consider their reputation and suitability to establish long–term and stable partnerships. In relation to substantial procurement or infrastructure projects, the Group has specific bidding policies to ensure fairness and equity. After confirming suppliers, the Group will continue to supervise their performance and periodically conduct sample checking to ensure they meet the standards of the Company.

4. SOCIAL RESPONSIBILITIES (Continued)

4.3. Customers

For the purpose for improving the service quality of the Group, the Group conducts site visits and regular visits in order to understand the actual demands and development targets of our customers. By forming long-term and good relationships with customers, the Group efficiently supports the economic development of the regions of operation and indirectly facilitates employment of those regions. Meanwhile, the Group proactively acquires customer feedbacks, including surveys and feedbacks on phone interviews.

The opinions of customers are mainly gathered by staff of each business unit. By setting procedures of customer complaints, the Group ensures customers opinions are efficiently collected and handled. Senior management will regularly review the suggestions from customers to learn from experience and recommend improvements to our staff, thereby improving the quality of service of our Group.

The Group insists to provide clear, transparent and comprehensive information to our customers. The Group introduces the clauses, articles and categories of our products in details.

4.3.1. Customer information security

The Group strictly complies with the Law of the People's Republic of China on Protection of Consumer Rights (《中華人民共和國消費者權益保護法》), the Company Law of the People's Republic of China (《中華人民共和國公司法》) and the Contract Law of the People's Republic of China (《中華人民共和國合同法》). In order to protect the legal interests of customers, the security of confidential information is ensured by signing relevant confidential agreements with staff and standardised management of the confidential obligations of staff mentioned in the Administrative Measures for Information Disclosure (《信息披露管理辦法》). Leakage or collection of customer information for private uses is strictly prohibited. An independent archival department is set up to centrally manage customer information. Access of the customer information requires the written approval of general manager or deputy manager on the receipts.

4.3.2. Information disclosure

The Group is in strict compliance with the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and Regulations on Control of Advertisement (《廣告管理條例》) of the State Council. The Group formulated the Administrative Measures for Information Disclosure (《信息披露管理辦法》) to ensure the information in external advertisements is consistent and factual. Additionally, there are regulations on obligations, content, working procedures, limit of authorities and allocation of duties of all related parties of information disclosure. Disclosure of information on websites, Wechat or other media channels requires the agreement of the Board Office and the Board Secretary.

4.3.3. Better customer services

The Group is committed to provide a comfortable and safe environment for customers. During the renovation period of the office building, the Group tried to minimize the influences of renovation to customers. Measures were taken to segregate the construction site and avoid construction works on working days.

4. SOCIAL RESPONSIBILITIES (Continued)

4.3. Customers (Continued)

4.3.3. Better customer services (Continued)

Customer services provided by the Group:

1. Environmentally: booth, tea and coffee are provided for customers to create a good consultation environment;

2. Communication service: 400 telephone services, including business consultation, customer interviews, handling of complaints; company mailbox and investor phone service, are provided for investor consultation services; Additionally, the Group will confirm lending information with customers by phone, provide SMS reminders of repayment date and amount to customers and etc;

3. Advertisement service: brochures, Wechat push and the road shows for products and services of the Company.

4.4. Other social responsibilities

4.4.1. Product liabilities

The Group has devoted in providing grants and loans for poor university students since its incorporation. In 2017, the Group granted RMB100 thousand interest-free loans for poor university students in total in the cooperation with the charity organization, up by RMB20 thousand as compared to that of RMB80 thousand in 2016.

4.4.2. Rewarding the society

The Group has committed to make its contribution in creating a stable and sustainable society since its incorporation. In the reporting period, the Group actively involved in social charity activities according to the initiatives of Finance Office of Zhejiang Province:

1. The Group actively participate in donation of winter clothes for students in Yushu primary school every year;

2. The Group provided the disabled and poor families in the county with consolation funds in an amount of RMB10 thousand through Huzhou Charity Federation;

3. The Group donated RMB30 thousand to Huzhou Charity Federation.

4.4.3. Adhering to Anti-corruption and clean governance

After launching of eight policies of the Central government, the Group actively responded to the calls for people-oriented and rectification measures of undesirable trends like idleness and luxury. A practical and efficient operation is achieved in every aspect of the Company's operation to avoid luxury spending and wastage. In addition, the Group carried out internal punishment and prevention of corruption in the Company and fought against bribery. As at 31 December 2017, there is no corruption in the Company, either any concluded legal cases regarding corrupt practices brought against the Group or its staff.

Since the date of incorporation of the Group, the Group has regarded "compliance operation" as its credo. We believed compliance and regulated operation are the solid bases for the robust development of the Company. The Group strictly complied with the laws and regulations of anti-commercial bribery. All staff is prohibited to accept and give presents to customers or attend any consumption and entertainment activities provided by the customers; the Group will sign the "Declaration of anti-commercial bribery" with every customer before granting loans; the Group insists on anti-money laundering, anti-counterfeit money, anti-illegal fund-raising and anti-corruption, sticking to the principle of compliance operation.

5. PROSPECT

The year of 2018 is an important year for the "Thirteenth Five Year Plan". As supply-side reform has gradually seen results, economic structural adjustment of the PRC carried forward. Technology and innovation will play more and more vital roles in economic growth. Along with the changes of an economic atmosphere as a whole in the PRC, the micro-finance industry will face more development opportunities and challenges from increasing competition.

Looking into 2018, the Group will adhere to servicing the real economy, servicing the "AFR (三農)", supporting the business development of medium-to-small and micro enterprises. Based on compliance, the Group will comprehensively control and analyse financial risks. Meanwhile, the Group will insist on green development, conservation of resources and reduction of emission, involvement in charity activities, refining customer experience and promoting innovation in order to make contributions for a better home.

5.1. Enhancing the brand value

In 2018, the Group will continue to improve the quality of customer services, promote the developments of Internet finance and differential loan products, and gradually construct a more efficient loans network. Meanwhile, the Group will make its contribution in local economic constructions by continuous increasing supports for "AFR (三農)", real economy, resident consumption and loans to medium-to-small and micro enterprises.

In 2018, the businesses of the Group in returning to society, along with providing financial support for poverty-stricken university students are in continuous development.

5.2. Promoting harmony and integrity

In 2018, the Group will further incorporate integrity into corporate governance and continue to provide self-regulated customer services with integrity. The Group will also reinforce policies and measures of anti-corruption and commercial bribery, and aim to enhance the risk control ability of the Group.

The Group will further strengthen and refine the relevant mechanisms of helping each other and promoting career development of the staff, enhancing their pride and cohesion of the Company.

Attachment: References to ESG Guide

Number	Details	Pages of Disclosure
A1.1	The types of emissions and respective emissions data.	Page 42: Waste gas emission
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 42: Greenhouse gas emission
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable
A1.5	Description of measures to mitigate emissions and results achieved.	Page 42: 3.2 Emission
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Not applicable
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Page 43: Use of resources
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Page 43: Use of resources
A2.3	Description of energy use efficiency initiatives and results achieved.	Page 43: Use of resources
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Page 43: Use of resources
A2.5	Total packaging material used for finished products (in tonnes) and, where appropriate, with reference to per unit produced.	Not applicable
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Page 41: Green operation; Page 42, Emission; Page 43, Use of resources
B1.1	Total workforce by gender, employment type, age group and geographical region.	Page 44, Statistics of staff
B1.2	Employee turnover rate by gender, age group and geographical region.	Page 44, Statistics of staff
B2.1	Number and rate of work-related fatalities	Not applicable
B2.2	Lost days due to work injury.	Not applicable
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Page 46: 4.1.6. Occupational health and safety

Number	Details	Pages of Disclosure
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Page 45, Staff training status
B3.2	The average training hours completed per employee by gender and employee category.	Page 45, Staff training status
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Not applicable
B4.2	Description of steps taken to eliminate such practices when discovered.	Not applicable
B5.1	Number of suppliers by geographical region.	Page 46, 4.2 Suppliers
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Page 46, 4.2 Suppliers
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable
B6.2	Number of products and service related complaints received and how they are dealt with.	Page 47, second paragraph of 4.3 Customers
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not applicable
B6.4	Description of quality assurance process and recall procedures.	Not applicable
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Page 47: 4.3.1. Customer information security
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Not applicable
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Page 48: 4.4.3. Adhering to Anti-corruption and clean governance
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Page 48: 4.4.1. Product liabilities; Page 48: 4.4.2. Rewarding the society
B8.2	Resources contributed (e.g. money or time) to the focus area.	Page 48: 4.4.1. Product liabilities; Page 48: 4.4.2. Rewarding the society

Report of the Directors

The Directors are pleased to present the report together with the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

We provide financing solutions to customers engaged in AFR (三農), SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, to meet their short-term financing needs.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the sections headed "Chairman's Statement", "Financial Summary", "Management Discussion and Analysis" of this report and the paragraphs below.

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the SFO for the disclosure of information and corporate governance. Important events affecting the Group are provided under the paragraph headed "Events After The Reporting Period" in the section headed "Report of the Directors" of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Impact of Local and International Regulations

The business operation of the Group is 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 some parts of its 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 and Customers

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.

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 regularly analyzes its customers' feedbacks. The Group also conducts comprehensive tests and checks to ensure that only quality services are offered to the customers.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2017, interests income from our five largest customers accounted for less than 30% of our net interests 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 shares) had any interest in the Group's five largest customers.

Due to the Group's business nature, the Group does not have major suppliers.

FIVE-YEAR FINANCIAL SUMMARY

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

FINANCIAL STATEMENTS

The result of the Group for the year ended 31 December 2017 and the state of the Group's and the Group's affairs as at that date are set out in the financial statements on pages 82 to 136 of this annual report.

A discussion and analysis of the Group'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 Group during the year ended 31 December 2017 are set out in note 15 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group during the year ended 31 December 2017 are set out in the section headed "Consolidated Statement of Changes in Equity" of this report, of which details of reserves available for distribution to the Shareholders are set out in note 22 to the consolidated financial statements.

DIVIDEND

The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil). In view of the Company's financial performance and future continuous development, the Board has decided to retain funds for daily operations.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholder's entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 29 May 2018 to Thursday, 28 June 2018, both days inclusive, during which period no share transfers will be registered. The holders of Shares whose names appear on the register of members of the Company on 28 June 2018 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, holders of Shares 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 (in respect of H shares), or to or to the Company's registered office in the PRC at No. 57–67, Dongsheng Road, Wukang Road, Deging County Zhejiang, the PRC (in respect of Domestic Shares) no later than 4:30 p.m. on Monday, 28 May 2018.

CHARITABLE DONATIONS

The Company donated RMB40,000 to help the disadvantaged in the year ended 31 December 2017.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Group as at 31 December 2017 are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2017 are set out in the section headed "Consolidated Statement of Changes in Equity" of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules for the year ended 31 December 2017 and up to the date of this 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 Company has not purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2017.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this report, no equity-linked agreements were entered into during the year ended 31 December 2017 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 2017.

Name	Age	Position	Appointment Date
Directors			
Mr. Yu Yin	31	Executive Director and chairman of the Board	28 April 2014
Mr. Zheng Xuegen	53	Executive Director, vice-chairman, deputy general manager and secretary to the Board	28 April 2014
Mr. Yang Sheng	43	Executive Director, vice-chairman of the Board and Chief Operating Officer	7 April 2016
Mr. Hu Haifeng	52	Executive Director and general manager	28 April 2014
Mr. Pan Zhongmin (formerly known as Pan Zhongming)	44	Non-executive Director	8 August 2014
Mr. Ho Yuk Ming, Hugo	46	Independent non-executive Director	28 April 2014
Mr. Jin Xuejun	59	Independent non-executive Director	28 April 2014
Ms. Huang Lianxi	55	Independent non-executive Director	28 April 2014
Supervisors			
Mr. Dai Shengqing	50	Supervisor	8 August 2014
Mr. Wang Peijun	44	Supervisor	8 August 2014
Ms. Shen Yamin	36	Supervisor	28 April 2014

In accordance with Article 10.2 of Article of Association, Directors shall be elected at the shareholders' general meeting to hold office for a term of three years. Upon the expiry of the term of office, a Director shall be eligible to be re-elected and reappointed. All the current Directors have been re-elected for a term of three years at the annual general meeting of the Company which was held on 30 June 2017.

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 24 to 30 of this report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors has entered into a service contract with the Company from the commencement of the second session of the Board and each service contract is for a specific term of 3 years.

Each Supervisor has entered into a service contract with the Company from the commencement of the second session of the Board of Supervisors and each service contract is for a specific term of 3 years.

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 1 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 indemnity provisions for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2017.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the Directors and Supervisors are set out in note 7 to the consolidated 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 subsisted during the year ended 31 December 2017.

DIRECTORS’, SUPERVISORS’ AND CHIEF EXECUTIVE’S INTERESTS IN SECURITIES

As at 31 December 2017, the interests or short positions of the Directors, Supervisors and the chief executive in the shares, underlying shares and debentures of the Company or any 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 they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be 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, were as follows:

(i) Interests of the Directors in the Shares

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

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 2017, 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 (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.

Save as disclosed above, as at 31 December 2017, none of the Directors, Supervisors and the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, 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)	Trustee	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%
Gawun (HK) International Trading Co., Limited	H Shares	113,582,000 (L)	Beneficial owner	37.86%	9.63%
安信乾盛財富管理(深圳)有限公司	H Shares	36,662,000 (L)	Trustee	12.22%	3.11%
上海海通證券資產管理有限公司	H Shares	36,662,000 (L)	Trustee	12.22%	3.11%
Mr. Peng Tao	H Shares	67,830,000 (L)	Beneficial owner	22.61%	5.75%

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 2017, 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 (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 51.93% 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) The letter "L" denotes the person's long position in such securities.

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any other person or corporation having 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.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance in relation to the business of the Group to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or supervisor of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2017.

CONTRACTS OF SIGNIFICANCE

During the year ended 31 December 2017, there had been no contract of significance between the Company or any of its subsidiaries and a Controlling Shareholder, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any of its subsidiaries.

INTEREST OF DIRECTORS AND SUPERVISORS IN A COMPETING BUSINESS

None of the Directors, the Supervisors or the management Shareholders and their respective close associates has an interest in a business which competes or may compete with the business of the Company.

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, being the Controlling Shareholders, has confirmed to the Company that he/it has complied with the non-compete undertakings given by them to the Company from the Listing Date to the date of this report. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertakings 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 ended 31 December 2017 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 and Hangzhou City, Zhejiang for the Group's employees based in the PRC. Contributions to this retirement plan are set out in note 5 to the consolidated financial statements.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company complied with all code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules during the year ended 31 December 2017.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

On 5 August 2016, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming, being the Controlling Shareholders, have pledged 88,000,000, 23,760,000, and 19,301,000 Domestics Shares (the "**Pledged Shares**") held by each of them, representing approximately 7.46%, 2.01% and 1.64% of the total issued share capital of the Company respectively, in favour of Chang An as guarantee for the Company's obligation under a transfer and repurchase agreement between the Company and Chang An (the "**Agreement**"). The Pledged Shares represent in aggregate approximately 11.11% of the total issued share capital of the Company as at the date of this report.

The Agreement is a financing activity of the Company, and the funding obtained from Chang An under the Agreement will be used by the Company for its loan business. As at the date of this report, the pledge of the Pledged Shares has not been released.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2017, 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

Corporate Reorganisation

On 14 November 2017, the Company and Jinhui Micro-finance, a company established in the PRC and a non-wholly owned subsidiary of the Company, entered into the assets restructuring agreement (the "**Assets Restructuring Agreement**") and the capital injection agreement (the "**Capital Injection Agreement**") for the purpose of implementing a proposed corporate reorganisation of the Group (the "**Corporate Reorganisation**"), further details of which are set out in the announcements of the Company dated 8 September 2017 and 14 November 2017 and the circular of the Company dated 20 November 2017. The Corporate Reorganisation involves, *inter alia*, the transfer of assets and liabilities in the aggregate appraised value of RMB1,000,000,000 in relation to the operation of the micro-finance business of the Company (the "**Transferred Assets**"), together with the ancillary documents, rights and data relating to the Transferred Assets and the operation of micro-finance business of the Company and certain manpower, by the Company to Jinhui Micro-finance by way of a capital injection (the "**Capital Injection**") under the Capital Injection Agreement.

The proposed Corporate Reorganisation was duly passed as a special resolution of the Company by the Shareholders in an extraordinary general meeting of the Company held on 5 January 2018 (the "**EGM**"). As announced by the Company on 15 March 2018, all conditions precedent under the Asset Restructuring Agreement and the Capital Injection Agreement have been fulfilled, and the Company has transferred the Transferred Assets into Jinhui Micro-finance and completed the Capital Injection. Based on the capital verification report issued by Zhonghui Certified Public Accountants LLP on 28 February 2018, as of 25 February 2018 the registered capital of Jinhui Micro-finance has been increased to RMB1,228,000,000, of which RMB1,221,000,000 was contributed by the Company. Accordingly, the equity interest held by the Company in Jinhui Micro-finance has increased from approximately 96.93% to approximately 99.43%. Filing and registration of the changes in shareholding and registered capital of Jinhui Micro-finance with relevant PRC regulatory authorities was completed on 14 March 2018. As at the date of this report, the Company is still in the course of obtaining approvals from relevant PRC authorities in relation to the surrender of its micro-finance license on its entity level.

Change of Company Name and Change of Stock Short Name

As disclosed above, details of the change of Company's name were set out in the announcement of the Company dated 14 November 2017 and the circular of the Company dated 20 November 2017. The proposed change of Company's name has not been completed as the Company is still in the course of obtaining approvals from relevant PRC authorities. Upon the completion of the change of name of the Company, the English and Chinese stock short names of the Company will be changed accordingly.

RELATED PARTY TRANSACTIONS

For the year ended 31 December 2017, the Company leased a property from Mr. Yu Yin, an executive Director and the chairman of the Board with a rental payable of RMB515,000; and the Company leased a property from the younger sister of Mr. Yu Yin with a rental payable of RMB110,000. Such related party transactions constituted 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.

For the year ended 31 December 2017, Mr. Yu Yin and other related parties had guaranteed some of our interest-bearing borrowings. The balance of our interest-bearing borrowings in aggregate amounted to RMB532.5 million as at 31 December 2017, in which Mr. Yu Yin had provided a guarantee covering an amount of RMB352.5 million, and other related parties had provided a guarantee covering an amount of RMB532.5 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the captioned provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

For the year ended 31 December 2017, the Company leased a property from Zuoli Holdings. Under the lease, the period from 7 July 2017 to 31 December 2017 is a rental-free period under the lease.

Puhua Energy is a Controlling Shareholder and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transaction constituted the continuing connected transactions under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios (as set out in Rule 14.07 of the Listing Rules) calculated with reference to the annual caps under the lease exceed 0.1% but are less than 5%, the transaction contemplated under the lease is subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company had duly announced the said transaction on 7 July 2017 and 10 July 2017.

The independent non-executive Directors have reviewed all the above continuing connected transactions and confirmed that these transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and in accordance with the relevant agreements governing them on terms which are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company was engaged to report on all the above Group's continuing connected transactions in accordance with the applicable accounting standards. The auditor has issued the unqualified letter containing the findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Save as disclosed above, during the year ended 31 December 2017, there was no other connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, risk management and internal control systems and financial report matters including the review of the Group's consolidated financial results for the year ended 31 December 2017. The annual financial statements of the Group have been audited by the independent auditors of the Company, KPMG.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 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

Zuoli Kechuang Micro-finance Company Limited*
Yu Yin
Chairman

Hong Kong, 23 March 2018

Report of the Board of Supervisors

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.

During the year ended 31 December 2017, for the Company's long term interests and the 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 2017 is summarised as follows:

I. MEETING CONDUCTED BY THE BOARD OF SUPERVISORS

The Board of Supervisors convened three meetings for the year ended 31 December 2017.

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 the Articles of Association or any act which jeopardises the interests of the Company or the Shareholders has been found in the performance of duties by 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 Group's operation and management in its ordinary works. 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 Group'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 acts 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 Group's operating activities. The Board of Supervisors is of the opinion that the Group has sound risk management and internal control systems 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 Group's operation is in compliance with the PRC laws and regulations and the Articles of Association.

4. Inspection over the Group's financial condition

The Board of Supervisors has verified the Group's 2017 consolidated financial statements, supervised and inspected the Group's implementation of relevant financial policies and legislations as well as details on the Group's assets, financial income and expenditure. It is of the opinion that the consolidated financial statements for 2017 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.

Zuoli Kechuang Micro-finance Company Limited*
Shen Yamin
Chairman of the Board of Supervisors

Hong Kong, 23 March 2018

Corporate Governance Report

CORPORATE GOVERNANCE

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

The Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provisions**") of the CG Code as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2017, 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 (Chairman), 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 24 to 30 in this 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 Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. 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 Group'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 Group, 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 Group'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.

APPOINTMENT AND RE-ELECTION

In accordance with Article 10.2 of Article of Association, Directors shall be elected at the Shareholders' general meeting to hold office for a term of three years. Upon the expiry of the term of office, a Director shall be eligible to be re-elected and re-appointed. All the current Directors have been re-elected for a term of three years at the annual general meeting of the Company which was held on 30 June 2017.

The composition of the Board is reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' profile is set out on pages 24 to 30 of this report.

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 Group. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

In March 2017, the Company organized specialised training sessions in relation to the Directors' responsibilities, Companies Ordinance and the SFO. 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 the 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 2017 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	✓	✓
Yang Sheng	✓	✓
Hu Haifeng	✓	✓
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 Group to protect the overall interests of the Shareholders and the Group. 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/her 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 Board Committees, including the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the 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, Remuneration and Appraisal Committee and Nomination 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, namely 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, risk management and internal control 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 consolidated financial statements of the Group for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group, 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, namely 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/her 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 Group'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.

The number of senior management of the Group whose remuneration for the year ended 31 December 2017 fell within the following band is as follows:

	Number of senior management
RMB100,000 – RMB300,000	3

(iii) Nomination Committee

The Nomination Committee comprises three Directors, namely 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 Group. 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 two Directors and three senior management of the Company, namely Mr. Hu Haifeng (executive Director), Mr. Zheng Xuegen (executive Director), Ms. Fei Xiaofang (deputy general manager), Mr. Huang Chenjiang (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 has 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 meetings of the Company held during the year ended 31 December 2017 is set out in the table below. The Directors did not authorize any alternate Director to attend the 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	11/11	2/2	1/1	N/A	N/A	2/2
Zheng Xuegen	11/11	N/A	N/A	N/A	154/154	2/2
Yang Sheng	11/11	N/A	N/A	N/A	N/A	2/2
Hu Haifeng	11/11	N/A	N/A	N/A	166/166	2/2
Pan Zhongmin	11/11	N/A	N/A	N/A	N/A	2/2
Ho Yuk Ming, Hugo	11/11	N/A	1/1	4/4	N/A	2/2
Jin Xuejun	11/11	2/2	1/1	4/4	N/A	2/2
Huang Lianxi	11/11	2/2	N/A	4/4	N/A	2/2

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 agenda of a regular Board meeting and related documents of the meeting shall altogether be dispatched to all Directors in time and be dispatched at least three days prior to the proposed date of the Board meeting or meeting of the Board Committee proposed to be held (or within other agreed time).

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 2017, there were eleven Board meetings held and the attendance of the Directors is set out in the above section headed "Attendance Record of Directors".

GENERAL MEETINGS

During the year ended 31 December 2017, the Company convened two general meetings of the Company held on 28 April 2017 and 30 June 2017 respectively. 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 DIRECTORS' INFORMATION

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

Ms. Huang Lianxi (黃廉熙女士) has been appointed as an independent non-executive director of Shenghua Lande Scitech Limited* (浙江升華蘭德科技股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 8106) since May 2017.

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 full compliance with the relevant standards stipulated in the Model Code throughout the year ended 31 December 2017.

Pursuant to Rule B.13 of the Model Code, the Directors has also requested any employee of the Company or director or employee of a subsidiary of the Company who, because of his office or employment in the Company or in a subsidiary, is likely to possess inside information in relation to the securities of the Company, not to deal in securities of the Company when he would be prohibited from dealing by the Model Code as if he were a Director.

COMPANY SECRETARY

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

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

During the year ended 31 December 2017, Ms. Ho complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Directors acknowledge their responsibility to prepare the Company's financial statements which give a true and fair view of the Group'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 Group or cast doubts on its ability to continue as going concern.

The responsibility of KPMG, the Company's external auditor, with respect to financial reporting is 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 2017, fee payable to KPMG for the annual audit services was RMB1.6 million (2016: RMB1.58 million); and RMB400,000 (2016: RMB0.25 million) for the non-audit services of limited assurance on the ESG Report of the Group and continuing connected transaction of the Company for the year ended 31 December 2017.

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 at the principal place of business of the Company in Hong Kong 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 and were for the amended pursuant to the resolution of the Shareholders passed on 30 June 2015. In 2017, certain amendments were made to the Articles of Association to align with current condition of the Company's management. These amendments were duly passed by the Shareholders at the general meeting of the Company held on 28 April 2017 and the amended version of the Articles of Association has been adopted since then. Save as disclosed above, no other change was made to the Articles of Association during the year ended 31 December 2017.

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 2017, 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 2017, 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

To the shareholders of Zuoli Kechuang Micro-finance Company Limited
(a joint stock Company incorporated in the People's Republic of China (the "PRC") with limited liability)

OPINION

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 82 to 136, which comprise the consolidated statements of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the PRC, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS

Impairment of loans and advances to customers

Refer to note 11 to the consolidated financial statements and the accounting policies on page 90 to page 91.

The Key Audit Matter	How the matter was addressed in our audit
The Group provides micro-finance services to a diversified customer base. The Group's loans and advances to customers as at 31 December 2017 totalled RMB2,054.4 million which represented 92.7% of the Group's total assets at that date. The Group's impaired loans and advances to customers amounted to RMB32.9 million as at 31 December 2017, with allowances for impairment totalling RMB25.6 million as at 31 December 2017. Impairment of loans and advances to customers is a subjective area due to the level of judgement exercised by management in determining allowances. From the Group's perspective, the loan portfolios which give rise to the most uncertainty in determining allowances for impairment of loans and advances to customers are those where impairment is derived from a collective assessment model, where the loans and advances are unsecured or where the loans and advances are subject to potential collateral shortfalls. The determination of the collective allowances for impairment is heavily dependent on the external macro environment and the Group's internal credit risk management models. The Group's collective allowances for impairment are derived from estimates including the Group's historical losses for loans and advances to customers, the loss emergence period (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss) and other adjustment factors. Individual allowances for impairment are assessed by management once objective evidence of impairment becomes apparent in a loan. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of claim and the existence and cooperativeness of other creditors. Enforceability, timing and means of realisation of the collateral has a significant impact on collateral valuation and, therefore, the amount of impairment allowances at the reporting date.	Our audit procedures to assess the impairment of loans and advances to customers included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording and monitoring of loans and advances to customers, the credit grading process and the measurement of allowances for impairment of loans and advances to customers; • comparing the total balance of the loan grading report used by management to assess allowances for impairment with the general ledger and comparing individual loan information on a sample basis to the underlying loan agreement and other related documentation to assess the presentation of the information in the loan grading report; • evaluating the validity of the models used and assumptions adopted in the management's calculation of the collective allowances for impairment by critically assessing input parameters involving management judgement, seeking collaborative evidence from external sources and comparing the historical losses with other internal records of the Group and our prior year records. As part of these procedures, we challenged management's revisions to estimates and input parameters, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses. We also evaluated the emergence period by comparing the lifecycle of overdue accounts from the specific credit event to the downgrading of the account to an impaired loan. Having considered the above, we performed re-calculations to assess the collective allowances for impairment;

KEY AUDIT MATTERS (Continued)

Impairment of loans and advances to customers (Continued)

Refer to note 11 to the consolidated financial statements and the accounting policies on page 90 to page 91.

The Key Audit Matter	How the matter was addressed in our audit
We identified impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty involved in management's exercise of judgement in determining the level of allowances and because of the significance of the impairment loss for the year to the financial results of the Group.	• evaluating the impairment allowances for individually impaired loans and advances to customers by selecting a risk-based sample for the purpose of performing credit reviews. We analysed the loan portfolio by industry sector to select samples for credit reviews in industries more vulnerable to the current economic slowdown. We selected further samples for credit reviews from loans classified as "Special Mention" or "Substandard" according to Group's loan grading system; • performing credit review procedures for the sample of loans and advances selected on the basis indicated above, which included reviewing the customers' financial information, researching market information about customers' businesses and evaluating management's assessment of the value of any collateral held, assessing the forecast cash flows for impaired loans, challenging the viability of the Group's recovery plans, comparing management's valuation of collateral to market prices, evaluating the timing and means of realisation of collateral and considering other sources of repayment asserted by management. • considering the disclosures in the financial statements in respect of impairment of loans and advances to customers with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (Continued)

Assessing potential impairment of goodwill

Refer to note 13 to the consolidated financial statements and the accounting policies on page 94.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2017 the carrying value of the Group's goodwill, which arose from the acquisition of two subsidiaries in the previous years, was RMB22.5 million. There is a risk that the carrying value of goodwill may not be recoverable in full through the future cash flows to be generated from the related cash-generating unit (the "CGU") to which the goodwill has been allocated. The recoverable amount of the CGU was determined by the management using the value-in-use model whereby a discounted cash flow forecast at the CGU level was prepared by management. We identified the potential impairment of goodwill as a key audit matter because of its significance to the consolidated financial statements and because determining whether any impairment is required involves a significant degree of management judgement and estimation in forecasting future cash flows, including the annual growth rate, the perpetual growth rate, interest rates and the amount of bad debts, all of which can be inherently uncertain and could be subject to management bias.	Our audit procedures to assess the potential impairment of goodwill included the following: • involving our internal valuation specialists to assist us in evaluating the methodology used by management in the preparation of the discounted cash flow forecast with reference to the requirements of the prevailing accounting standards; • challenging the assumptions and critical judgements made by management in the preparation of the discounted cash flow forecast by comparing key inputs, including the annual growth rate, the perpetual growth rate, interest rates and the amount of bad debts with the historical performance of the relevant acquired subsidiaries, management's budgets and forecasts and industry reports; • performing a retrospective review by comparing the prior year's discounted cash flow forecast with the current year's results to assess the reliability and historical accuracy of management's forecasting process; • evaluating the discount rate used in the discounted cash flow forecast by benchmarking the discount rate against the discount rates for similar companies; • obtaining management's sensitivity analyses for the key assumptions, including the annual growth rate and the discount rate, adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions to the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias; • considering the disclosures in the consolidated financial statements in respect of impairment testing of goodwill with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibility for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Siu Tung.

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

23 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

(Expressed in Renminbi ("RMB") '000, unless otherwise stated)

	Note	2017 RMB'000	2016 RMB'000
Interest income		**314,301**	243,360
Interest and commission expenses		**(43,464)**	(24,139)
Net interest income	2	**270,837**	219,221
Other net income	3	**5,349**	22,858
Impairment losses	4	**(17,361)**	(836)
Administrative expenses		**(49,443)**	(40,374)
Profit before taxation	5	**209,382**	200,869
Income tax	6	**(53,530)**	(50,333)
Profit and total comprehensive income for the year		**155,852**	150,536
Attributable to:			
Equity shareholders of the Company		**148,828**	146,147
Non-controlling interests		**7,024**	4,389
Profit for the year		**155,852**	150,536
Earnings per share			
Basic and diluted (RMB)	9	**0.13**	0.12

The accompanying notes form part of the financial statements.

Consolidated Statement of Financial Position

At 31 December 2017

(Expressed in RMB'000, unless otherwise stated)

	Note	31 December 2017 RMB'000	31 December 2016 RMB'000
Assets			
Cash and cash equivalents	10(a)	**37,235**	29,208
Restricted deposits		**—**	15,000
Interests receivables		**20,391**	19,033
Loans and advances to customers	11	**2,054,390**	1,807,164
Intangible assets	12	**3,964**	36
Goodwill	13	**22,502**	22,502
Fixed assets	15	**29,580**	18,983
Available-for-sale financial assets	16	**27,520**	72,700
Deferred tax assets	21(b)	**18,282**	16,981
Other assets	17	**3,398**	31,659
Total assets		**2,217,262**	2,033,266
Liabilities			
Interest-bearing borrowings	18	**532,500**	250,000
Accruals and other payables	19	**38,598**	28,833
Debt securities issued	20	**—**	278,283
Current taxation	21(a)	**26,295**	11,575
Total liabilities		**597,393**	568,691
NET ASSETS		**1,619,869**	1,464,575
CAPITAL AND RESERVES	22		
Share capital		**1,180,000**	1,180,000
Reserves		**337,952**	189,124
Total equity attributable to equity shareholders of the Company		**1,517,952**	1,369,124
Non-controlling interests	14	**101,917**	95,451
TOTAL EQUITY		**1,619,869**	1,464,575

Approved and authorised for issue by the board of directors on 23 March 2018.

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 2017

(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000 Note 22(c)	Surplus reserve RMB'000 Note 22(d)(i)	General reserve RMB'000 Note 22(d)(ii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	**1,180,000**	**25,122**	**35,781**	**128,221**	**1,369,124**	**95,451**	**1,464,575**
Changes in equity for 2017:							
Profit and total comprehensive income for the year	—	—	—	148,828	148,828	7,024	155,852
Appropriation to surplus reserve	—	14,458	—	(14,458)	—	—	—
Appropriation to general reserve	—	—	8,745	(8,745)	—	—	—
Dividends approved and paid in respect of the previous year (Note 22(b))	—	—	—	—	—	(558)	(558)
Balance at 31 December 2017	**1,180,000**	**39,580**	**44,526**	**253,846**	**1,517,952**	**101,917**	**1,619,869**
Balance at 1 January 2016	1,180,000	13,508	10,984	183,685	1,388,177	7,416	1,395,593
Changes in equity for 2016:							
Acquisition of subsidiary	—	—	—	—	—	83,646	83,646
Profit and total comprehensive income for the year	—	—	—	146,147	146,147	4,389	150,536
Appropriation to surplus reserve	—	11,614	—	(11,614)	—	—	—
Appropriation to general reserve	—	—	24,797	(24,797)	—	—	—
Dividends approved in respect of the previous year (Note 22(b))	—	—	—	(165,200)	(165,200)	—	(165,200)
Balance at 31 December 2016	1,180,000	25,122	35,781	128,221	1,369,124	95,451	1,464,575

The accompanying notes form part of the financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

(Expressed in RMB'000, unless otherwise stated)

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
Cash generated from operations	10(b)	25,503	11,748
PRC income tax paid	21(a)	(40,111)	(55,792)
Net cash used in operating activities		(14,608)	(44,044)
Investing activities			
Proceeds from disposal of investments		5,567,992	5,301,584
Proceeds from disposal of fixed assets		2	—
Payment for the purchase of fixed assets and intangible assets		(16,739)	(16,643)
Payments on acquisition of subsidiary		(9,460)	(117,967)
Payments on acquisition of investments		(5,520,321)	(5,372,696)
Others		(5,917)	(2,000)
Net cash generated from/(used in) investing activities		15,557	(207,722)
Financing activities			
Proceeds from new bank loans	10(c)	260,000	150,000
Proceeds from debt securities issued	10(c)	173,184	425,000
Proceeds from third parties	10(c)	380,030	135,000
Repayment of bank loans	10(c)	(180,000)	(150,000)
Repayment of debt securities issued	10(c)	(425,000)	(175,000)
Repayment of third parties	10(c)	(165,000)	—
Interest paid	10(c)	(35,574)	(21,073)
Dividends paid		(558)	(165,200)
Net cash generated from financing activities		7,082	198,727
Net increase/(decrease) in cash and cash equivalents		8,031	(53,039)
Cash and cash equivalents at 1 January	10(a)	29,208	82,572
Effect of foreign exchange rate changes		(4)	(325)
Cash and cash equivalents at 31 December	10(a)	37,235	29,208

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. Significant accounting policies adopted by the Group are disclosed 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. 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 2017 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, except for the available-for-sale financial assets (see Note1 (i)).

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 26.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in Note 10(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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.

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(i)) 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(l)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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(l)).

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(l)).

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.

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
Premises	20 years
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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 1(l)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– computer software	5 years

The period and method of amortisation are reviewed annually.

(h) 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.

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.

(i) 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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(i) Recognition and measurement of financial assets and liabilities (Continued)

– *Loans and receivables (Continued)*

(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.

– *Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognised directly in other comprehensive income.

– *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.

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 reorganization;

– 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost net of any principal repayment and amortization and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income. Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(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.

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.

(j) 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 amortised 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) 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.

(l) 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;

– intangible assets;

– 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)

(m) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

– Salaries, annual bonuses, paid annual leave, 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.

(n) 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 utilised, 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 credits, 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 utilised.

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)

(n) 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 utilised. 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 Company or 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 realise 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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Value-added-tax ("VAT")

Output VAT is calculated on taxable revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period. The tax rate of VAT is 6%.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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(p)(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(p)(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.

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.

(q) 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 statement 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 asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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.

(s) Borrowing costs

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

(t) 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 entity.

(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).

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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 and Hangzhou, Zhejiang province, the PRC. The amount of each significant category of revenue recognised is as follows:

	2017 RMB'000	2016 RMB'000
Interest income arising from		
Loans and advances to customers	313,495	242,370
Cash at banks	806	990
	314,301	243,360
Interest and commission expenses arising from		
Borrowings from banks	(9,474)	(11,791)
Borrowings from non-bank institutions	(32,514)	(12,277)
Bank charges	(1,476)	(71)
	(43,464)	(24,139)
Net interest income	270,837	219,221

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 2017 and 2016. Details of concentration of credit risk are set out in Note 23(a).

For the years ended 31 December 2017 and 2016, 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 Zhejiang province in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded Zhejiang province as its place of domicile. All the Group's revenue and assets are principally attributable to Zhejiang province, being the main operating region.

3 OTHER NET INCOME

	2017 RMB'000	2016 RMB'000
Government grants	1,891	21,645
Exchange losses	(4)	(325)
Investment income from available-for-sale financial assets	2,491	1,588
Gains on disposal of loans and advances to customers	1,084	—
Others	(113)	(50)
Total	5,349	22,858

4 IMPAIRMENT LOSSES

	2017 RMB'000	2016 RMB'000
Loans and advances to customers (Note 11)	16,871	780
Interest receivables	289	21
Other assets	201	35
Total	17,361	836

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	2017 RMB'000	2016 RMB'000
Salaries, bonuses and allowance	12,335	9,507
Contribution to retirement scheme	835	591
Social insurance and other benefits	4,889	1,989
Total	18,059	12,087

The Group is required to participate in the pension scheme organised by the municipal government of 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

	2017 RMB'000	2016 RMB'000
Amortization of intangible assets	226	8
Depreciation expenses (Note 15)	1,970	1,917
Operating lease charges in respect of building	2,262	882
Auditors' remuneration		
– audit services	2,871	2,754
– other services	377	236

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:

	2017 RMB'000	2016 RMB'000
Current tax (Note 21(a))		
Provision for PRC income tax for the year	54,831	47,639
Deferred tax (Note 21(b))		
Origination and reversal of temporary differences	(1,301)	2,694
Total	53,530	50,333

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

	2017 RMB'000	2016 RMB'000
Profit before taxation	209,382	200,869
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (Notes)	52,346	50,217
Under-provision in respect of prior years	983	—
Effect of non-deductible expenses	201	116
Actual income tax expense	53,530	50,333

Notes:

(i) The Company and the subsidiaries 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 2017 (2016: 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 2017 (2016: nil).

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:

	2017			
	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	361	100	467
Executive directors				
Zheng Xuegen (鄭學根)	6	241	100	347
Hu Haifeng (胡海峰)	6	301	100	407
Yang Sheng (楊晟)	6	241	100	347
Non-executive director				
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	85	54	145
Dai Shengqing (戴勝慶)	6	—	—	6
Wang Peijun (王培軍)	6	—	—	6
	348	1,229	454	2,031

7 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	2016			
	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Chairman	6	360	100	466
Yu Yin (俞寅)				
Executive directors				
Zheng Xuegen (鄭學根)	6	240	100	346
Hu Haifeng (胡海峰)	6	300	100	406
Yang Sheng (楊晟)				
(Appointed on 7 April, 2016)	6	180	100	286
Non-executive director				
Pan Zhongmin (潘忠敏)	6	—	—	6
Independent non-executive directors				
Ho Yuk Ming (何育明)	103	—	—	103
Jin Xuejun (金雪軍)	100	—	—	100
Huang Lianxi (黃廉熙)	100	—	—	100
Supervisors				
Shen Yamin (沈婭敏)	6	72	52	130
Dai Shengqing (戴勝慶)	6	—	—	6
Wang Peijun (王培軍)	6	—	—	6
	351	1,152	452	1,955

There were no amounts paid during the years ended 31 December 2017 and 2016 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 2017 and 2016.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2016: four) are directors or supervisors of the Group for the year ended 31 December 2017, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other individual are as follow:

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	242	240
Discretionary bonuses	54	52
	296	292

The emoluments of the one (2016: one) individual with the highest emoluments are within the following bands:

	2017 Number of individuals	2016 Number of individuals
Hong Kong dollar		
Nil–1,000,000	1	1
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 2017 and 2016.

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:

	2017	2016
Profit attributable to the equity shareholders of the Company (RMB'000)	148,828	146,147
Weighted average number of ordinary shares in issue ('000)	1,180,000	1,180,000
Basic earnings per share (RMB)	0.13	0.12

9 EARNINGS PER SHARE (Continued)

(a) Weighted average number of ordinary shares

	2017 '000	2016 '000
Issued ordinary shares at 1 January	**1,180,000**	1,180,000
Weighted average number of ordinary shares at 31 December	**1,180,000**	1,180,000

There were no dilutive potential ordinary shares during the years ended 31 December 2017 and 2016, 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 2017 RMB'000	31 December 2016 RMB'000
Cash in hand	**1**	2
Cash at banks	**27,223**	23,152
Others	**10,011**	6,054
Cash and cash equivalents in the cash flow statement	**37,235**	29,208

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

	2017 RMB'000	2016 RMB'000
Profit before taxation	**209,382**	200,869
Adjustment for:		
Impairment losses	**17,361**	836
Depreciation and amortisation	**2,196**	1,925
Exchange losses	**4**	325
Interest expenses	**41,988**	24,068
Investment income	**(2,491)**	(1,588)
Net loss from disposal of fixed assets	**16**	—
Changes in working capital:		
Increase in loans and advances to customers	**(264,097)**	(209,806)
Decrease/(increase) in interest receivables and other assets	**615**	(3,311)
Increase/(decrease) in accruals and other payables	**20,529**	(1,570)
Cash generated from operations	**25,503**	11,748

10 CASH AND CASH EQUIVALENTS (Continued)

(c) Reconciliation of liabilities arising from financing activities:

	Bank Loans RMB'000	Borrowing from third parties under a repurchase agreement RMB'000	Borrowings from third parties- a micro-finance company RMB'000	Other borrowings from third parties RMB'000	Debt securities issued RMB'000	Total RMB'000
At 1 January 2017	100,000	150,000	—	—	278,283	528,283
Changes from financing cash flow						
Proceeds from bank loans	260,000	—	—	—	—	260,000
Repayment of bank loans	(180,000)	—	—	—	—	(180,000)
Proceeds from borrowing from third parties	—	—	55,000	325,030	—	380,030
Repayment of borrowing from third parties	—	(135,000)	(30,000)	—	—	(165,000)
Proceeds from debt securities issued	—	—	—	—	173,184	173,184
Repayment of debt securities issued	—	—	—	—	(425,000)	(425,000)
Interest paid	(9,367)	(6,628)	(852)	(5,786)	(12,941)	(35,574)
Total changes from financing cash flows	70,633	(141,628)	24,148	319,244	(264,757)	7,640
Other changes:						
Changes of restricted deposit	—	(15,000)	—	—	—	(15,000)
Interest expense (Note 2)	9,474	6,298	960	12,984	12,272	41,988
Changes of interest payable (Note 19)	(107)	330	(108)	(4,728)	—	(4,613)
Principal and interests of debts securities issued prepaid in prior year (Note 17)	—	—	—	—	(25,798)	(25,798)
Total other changes	9,367	(8,372)	852	8,256	(13,526)	(3,423)
At 31 December 2017	180,000	—	25,000	327,500	—	532,500

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2017 RMB'000	31 December 2016 RMB'000
Corporate loans	**532,020**	547,212
Retail loans	**1,289,175**	1,024,138
Micro-loans granted online	**323,748**	318,170
Gross loans and advances to customers	**2,144,943**	1,889,520
Less: Allowances for impairment losses		
– Collectively assessed	**(64,935)**	(64,884)
– Individually assessed	**(25,618)**	(17,472)
Total allowances for impairment losses	**(90,553)**	(82,356)
Net loans and advances to customers	**2,054,390**	1,807,164

(b) Analysed by type of collateral

	31 December 2017 RMB'000	31 December 2016 RMB'000
Unsecured loans	**269,879**	170,888
Guaranteed loans	**1,813,468**	1,651,250
Collateralized loans	**61,546**	59,602
Pledged loans	**50**	7,780
Gross loans and advances to customers	**2,144,943**	1,889,520
Less: Allowances for impairment losses		
– Collectively assessed	**(64,935)**	(64,884)
– Individually assessed	**(25,618)**	(17,472)
Total allowances for impairment losses	**(90,553)**	(82,356)
Net loans and advances to customers	**2,054,390**	1,807,164

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Analysed by industry sector

	31 December 2017		31 December 2016	
	RMB'000	%	RMB'000	%
Wholesale and retail	115,192	5%	154,889	8%
Agriculture, forestry, animal husbandry and fishery	45,900	2%	98,720	6%
Construction	42,100	2%	81,300	4%
Manufacturing	33,363	2%	80,303	4%
Others	295,465	14%	132,000	7%
Corporate loans	532,020	25%	547,212	29%
Retail loans	1,289,175	60%	1,024,138	54%
Micro-loans granted online	323,748	15%	318,170	17%
Gross loans and advances to customers	2,144,943	100%	1,889,520	100%
Less: Allowances for impairment losses	(90,553)		(82,356)	
Net loans and advances to customers	2,054,390		1,807,164	

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	31 December 2017				
	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	**2,745**	**2,827**	**6,472**	**9,426**	**21,470**
Guaranteed loans	**1,619**	**635**	**4,335**	**4,790**	**11,379**
Collateralized loans	**—**	**—**	**1,655**	**29**	**1,684**
Total	**4,364**	**3,462**	**12,462**	**14,245**	**34,533**

	31 December 2016				
	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	3,376	4,200	4,677	—	12,253
Guaranteed loans	4,646	3,754	394	1,103	9,897
Collateralized loans	1,300	—	229	7,358	8,887
Total	9,322	7,954	5,300	8,461	31,037

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 2017		
	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	2,112,012	32,931	2,144,943
Less: Allowances for impairment losses	(64,935)	(25,618)	(90,553)
Net loans and advances to customers	2,047,077	7,313	2,054,390

	31 December 2016		
	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	1,862,535	26,985	1,889,520
Less: Allowances for impairment losses	(64,884)	(17,472)	(82,356)
Net loans and advances to customers	1,797,651	9,513	1,807,164

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Movements of allowances for impairment losses

	2017		
	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	64,884	17,472	82,356
Charge for the year	25,657	20,394	46,051
Reversal for the year	(25,606)	(3,574)	(29,180)
Write off	—	(8,993)	(8,993)
Recoveries of loans and advances written off in previous years	—	319	319
At 31 December	64,935	25,618	90,553

	2016		
	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	54,932	18,022	72,954
Acquisition of subsidiary	10,387	2,065	12,452
Charge for the year	7,696	2,191	9,887
Reversal for the year	(7,692)	(1,415)	(9,107)
Write off	(439)	(4,178)	(4,617)
Recoveries of loans and advances written off in previous years	—	787	787
At 31 December	64,884	17,472	82,356

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality

	31 December 2017 RMB'000	31 December 2016 RMB'000
Gross balance of loans and advances to customers		
Neither overdue nor impaired	**2,108,043**	1,858,483
Overdue but not impaired	**3,969**	4,052
Impaired	**32,931**	26,985
	2,144,943	1,889,520
Less: Allowances for impairment losses		
Neither overdue nor impaired	**(64,428)**	(64,560)
Overdue but not impaired	**(507)**	(324)
Impaired	**(25,618)**	(17,472)
	(90,553)	(82,356)
Net balance		
Neither overdue nor impaired	**2,043,108**	1,793,923
Overdue but not impaired	**3,969**	3,728
Impaired	**7,313**	9,513
	2,054,390	1,807,164

12 INTANGIBLE ASSETS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Computer software	**3,964**	36

13 GOODWILL

	RMB'000
Cost:	
At 1 January 2017	22,502
At 31 December 2017	22,502
Accumulated impairment losses:	
At 31 December 2017 and 2016	—
Carrying amount:	
At 31 December 2017	22,502
At 31 December 2016	22,502

Goodwill is allocated to the Group's cash-generating units identified according to the micro-finance operations acquired as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance")	**18,005**	18,005
Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd. (杭州市高新區(濱江)兴耀普滙小額貸款有限公司) ("Xingyao Micro-finance")	**4,497**	4,497
	22,502	22,502

The Group acquired 96.9298% equity interest in Jinhui Micro-finance for a total consideration of RMB238.5 million on 1 July 2015. The excess of the acquisition costs over the share of 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.

The Group acquired 60% equity interest in Xingyao Micro-finance for a total consideration of RMB130.0 million on 18 November 2016. The excess of the acquisition costs over the share of net fair value of Xingyao Micro-finance's identifiable net assets of RMB4.5 million was recorded as goodwill and allocated to the micro-finance operation of Xingyao Micro-finance.

(Expressed in RMB'000, unless otherwise stated)

13 GOODWILL (Continued)

Impairment test

The recoverable amount of the acquired subsidiaries are 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 3%, 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 discount rates of 11.48% and 11.74% by Jinhui Micro-finance and Xingyao Micro-finance respectively at 31 December 2017(2016: Jinhui Micro-finance: 12.39%; Xingyao Micro-finance: no impairment test given that the acquisition day is very close to 31 December 2016).The discounted rates are pre-tax and reflect specific risks relating to the acquired subsidiaries.

14 INVESTMENTS IN SUBSIDIARIES

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

			Proportion of ownership interest		
Name of Companies	**Place of incorporation and business**	**Paid up capital**	**Group's effective interest**	**Held by the Company**	**Principal activities**
Jinhui Micro-finance (Notes (i))	Deqing, Zhejiang	228,000,000	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") (Notes (ii))	Hong Kong	—	100%	100%	Investment, Trading
Xingyao Micro-finance (Notes (iii))	Hangzhou, Zhejiang	200,000,000	60%	60%	Micro-finance

Notes:

(i) Jinhui Micro-finance was not audited by KPMG for the year ended 31 December 2017. The financial statements of Jinhui Micro-finance not audited by KPMG reflect total net assets and total net interest income constituting approximately 16.11% and 7.87% 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 2017, the issued shares had not been paid by the Company.

(iii) Xingyao Micro-finance was not audited by KPMG for the year ended 31 December 2017. The financial statements of Xingyao Micro-finance not audited by KPMG reflect total net assets and total net interest income constituting approximately 14.48% and 10.06% respectively of the related consolidated amounts of the Group.

14 INVESTMENTS IN SUBSIDIARIES (Continued)

The following tables lists out the information relating to Xingyao Micro-finance which has a material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2017 RMB'000	Period from 18 November 2016 (date of acquisition) to 31 December 2016 RMB'000
NCI Percentage	40%	40%
Total assets	298,489	232,671
Total liabilities	(63,737)	(14,532)
Net assets	234,752	218,139
Carrying amount of NCI	93,901	87,256
Net interest income	30,618	3,309
Profit and total comprehensive income for the year	16,610	9,024
Profit allocated to NCI	6,644	3,610
Net cash (used in)/ generated from operating activities	(26,181)	73,328
Net cash used in investing activities	(24,753)	(73,012)
Net cash generated from financing activities	51,263	2,000

15 FIXED ASSETS

	Construction in progress RMB'000	Premise RMB'000	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 2016	—	—	730	1,565	1,143	4,556	7,994
Acquisition of subsidiary	—	—	280	415	—	—	695
Additions	—	13,366	173	1,079	352	1,632	16,602
At 31 December 2016 and 1 January 2017	—	13,366	1,183	3,059	1,495	6,188	25,291
Additions	10,075	1,741	85	410	274	—	12,585
Disposal	—	—	(94)	—	(39)	—	(133)
At 31 December 2017	10,075	15,107	1,174	3,469	1,730	6,188	37,743
Accumulated depreciation:							
At 1 January 2016	—	—	(532)	(686)	(368)	(2,246)	(3,832)
Acquisition of subsidiary	—	—	(185)	(374)	—	—	(559)
Charge for the year	—	—	(157)	(398)	(261)	(1,101)	(1,917)
At 31 December 2016 and 1 January 2017	—	—	(874)	(1,458)	(629)	(3,347)	(6,308)
Charge for the year	—	(232)	(121)	(445)	(276)	(896)	(1,970)
Disposal	—	—	76	—	39	—	115
At 31 December 2017	—	(232)	(919)	(1,903)	(866)	(4,243)	(8,163)
Net book value:							
At 31 December 2017	10,075	14,875	255	1,566	864	1,945	29,580
At 31 December 2016	—	13,366	309	1,601	866	2,841	18,983

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Wealth management products (Note)	27,520	72,700

Note: Wealth management products were issued by banks in the PRC, which were unlisted securities.

17 OTHER ASSETS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Prepaid principal and interests of debts issued	—	25,798
Prepaid income tax (Note)	—	205
Prepayment	1,642	5,424
Others	1,756	232
	3,398	31,659

Note: Prepaid income tax represents the over-paid income tax by a subsidiary of the Group incorporated in the PRC for the years ended 31 December 2016.

All other assets were expected to be recovered or recognised as expenses within one year.

18 INTEREST-BEARING BORROWINGS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Bank loans (Notes (i))		
— Guaranteed by related parties	180,000	100,000
Borrowing from a third party under a repurchase agreement		
— Guaranteed by related parties	—	150,000
Borrowings from third parties (Notes (ii))		
— Guaranteed by related parties	352,500	—
	532,500	250,000

18 INTEREST-BEARING BORROWINGS (Continued)

Notes:

(i) 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 23(b). At 31 December 2017 and 31 December 2016, none of the covenants relating to the bank loans had been breached.

(ii) In September and November 2017, the Group obtained financing totaling RMB55.0 million at an interest rate of 12% per annum from a third party micro-finance company located in the PRC. The Group repaid RMB30.0 million in November 2017 and the remaining balance of RMB25.0 million will be due in February 2018. The above transactions were guaranteed by certain shareholders and related parties.

In May, June and August 2017, the Group obtained financing totaling RMB330.0 million at an interest rate of 6.4% per annum by issuing financing products on a trading platform located in the PRC. The financings will be due during the period from 21 May 2018 to 3 August 2018. The above transactions were guaranteed by certain shareholders and related parties.

19 ACCRUALS AND OTHER PAYABLES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Interest payable	5,116	503
Accrued staff costs	3,890	3,453
Value-added tax payable	1,638	978
Acquisition consideration payable	506	9,966
Tax and surcharges and other taxation payable	242	150
Other payables	27,206	13,783
	38,598	28,833

20 DEBT SECURITIES ISSUED

	31 December 2017 RMB'000	31 December 2016 RMB'000
Debt securities at amortized cost	–	278,283

Note: Debt securities with nominal value totaling of RMB275.0 million and a term of six months were issued in July and December 2016 respectively. The coupon rate is 6% per annum. The Group redeemed the debt securities in 2017

21 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 2017 RMB'000	31 December 2016 RMB'000
Balance of income tax payable at the beginning of the year	11,575	19,728
Provision for PRC income tax for the year (Note 6(a))	54,831	47,639
Income tax paid during the year	(40,111)	(55,792)
Balance of income tax payable at the end of the year	26,295	11,575

(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 2016 and 2017 are as follows:

Deferred tax assets arising from:	**Provision for impairment losses** RMB'000	**Accrued expenses** RMB'000	**Recognised tax losses** RMB'000	**Total** RMB'000
At 1 January 2016	13,765	757	2,444	16,966
Acquisition of subsidiary	2,680	29	—	2,709
Charged to profit or loss	28	(278)	(2,444)	(2,694)
At 31 December 2016 and 1 January 2017	16,473	508	—	16,981
Charged to profit or loss (Note 6(a))	803	498	—	1,301
At 31 December 2017	17,276	1,006	—	18,282

22 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 22(c)	Surplus reserve RMB'000 Note 22(d)(i)	General reserve RMB'000 Note 22(d)(ii)	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2017	1,180,000	25,122	29,595	93,392	1,328,109
Changes in equity for 2017:					
Total comprehensive income for the year	—	—	—	144,584	144,584
Appropriation to surplus reserve	—	14,458	—	(14,458)	—
Appropriation to general reserve	—	—	807	(807)	—
Balance at 31 December 2017	1,180,000	39,580	30,402	222,711	1,472,693

	Share capital RMB'000 Note 22(c)	Surplus reserve RMB'000 Note 22(d)(i)	General reserve RMB'000 Note 22(d)(ii)	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2016	1,180,000	13,508	9,209	174,457	1,377,174
Changes in equity for 2016:					
Total comprehensive income for the year	—	—	—	116,135	116,135
Appropriation to surplus reserve	—	11,614	—	(11,614)	—
Appropriation to general reserve	—	—	20,386	(20,386)	—
Dividends approved in respect of the previous year (Note 22(b))	—	—	—	(165,200)	(165,200)
Balance at 31 December 2016	1,180,000	25,122	29,595	93,392	1,328,109

22 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

The Group didn't pay any dividend during the year ended 31 December 2017, which were attributable to the previous financial year (2016: RMB165.2 million (RMB0.14 per share)).

(c) Share capital

As at 31 December 2017, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1 each.

(d) Nature and purpose of reserves

(i) 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.

(ii) General risk reserve

Pursuant to relevant regulations, the Company and its subsidiaries 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.

(e) Appropriation of profits

(i) In accordance with the resolution of the Company's board of directors meeting on 23 March 2018, the proposed profit appropriations for the year ended 31 December 2017 are as follows:

- Appropriate RMB14.5 million (10% of the net profit of the Company) to surplus reserve;
- Appropriate RMB0.8 million to general reserve.

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 2017, the shareholders approved the following profit appropriations for the year ended 31 December 2016:

- Appropriate RMB11.6 million (10% of the net profit of the Company) to surplus reserve;
- Appropriate RMB20.4 million to general reserve.

22 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(f) Distributable reserves

At 31 December 2016 and 31 December 2017, 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 RMB93.4 million and RMB222.7 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 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 2016 and 2017.

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.

23 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.

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

(a) Credit risk (Continued)

Credit risk arising from micro-finance business (Continued)

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.

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 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 2017, 1.40% (2016: 1.96%) and 5.83% (2016: 7.94%) 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.

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

(a) Credit risk (Continued)

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.

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 2017					
	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	37,235	—	—	—	37,235	37,235
Interest receivables	396	14,147	5,848	—	20,391	20,391
Loans and advances to customers	34,533	774,842	1,637,785	18,163	2,465,323	2,054,390
Available-for-sale financial assets	27,520	—	—	—	27,520	27,520
Other assets	270	1,486	—	—	1,756	1,756
Total	99,954	790,475	1,643,633	18,163	2,552,225	2,141,292
Liabilities						
Interest-bearing borrowings	—	(27,662)	(523,290)	—	(550,952)	(532,500)
Accruals and other payables	(6,330)	(24,203)	(2,295)	—	(32,828)	(32,828)
Total	(6,330)	(51,865)	(525,585)	—	(583,780)	(565,328)
	93,624	738,610	1,118,048	18,163	1,968,445	1,575,964

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

(b) Liquidity risk (Continued)

	31 December 2016					
	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	29,208	—	—	—	29,208	29,208
Restricted deposits	—	—	15,293	—	15,293	15,000
Interest receivables	216	13,384	5,433	—	19,033	19,033
Loans and advances to customers	31,037	527,167	1,459,963	21,424	2,039,591	1,807,164
Available-for-sale financial assets	72,700	—	—	—	72,700	72,700
Other assets	232	—	—	—	232	232
Total	133,393	540,551	1,480,689	21,424	2,176,057	1,943,337
Liabilities						
Interest-bearing borrowings	—	(3,439)	(256,433)	—	(259,872)	(250,000)
Accruals and other payables	(16,725)	(697)	(6,830)	—	(24,252)	(24,252)
Debt securities issued	—	(154,537)	(128,715)	—	(283,252)	(278,283)
Total	(16,725)	(158,673)	(391,978)	—	(567,376)	(552,535)
	116,668	381,878	1,088,711	21,424	1,608,681	1,390,802

23 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 2017 RMB'000	31 December 2016 RMB'000
Fixed interest rate		
Financial assets		
— Restricted deposits	**—**	15,000
— Loans and advances to customers	**2,054,390**	1,807,164
Financial liabilities		
— Interest-bearing borrowings	**(532,500)**	(250,000)
— Debt securities issued	**—**	(278,283)
Net	**1,521,890**	1,293,881
Variable interest rate		
Financial assets		
— Cash and cash equivalent	**27,223**	23,152
— Available-for-sale financial assets	**27,520**	72,700
Net	**54,743**	95,852
Net fixed rate borrowings as a percentage of total borrowings	**100.00%**	100.00%

(ii) Sensitivity analysis

At 31 December 2017 and 31 December 2016, 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 RMB205,000 and RMB359,000 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.

23 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.

Fair value hierarchy:

	At 31 December 2017			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Available-for-sale financial assets				
Wealth management products	**—**	**27,520**	**—**	**27,520**

	At 31 December 2016			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale financial assets				
Wealth management products	—	72,700	—	72,700

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

(d) Fair value (Continued)

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of wealth management products is determined with reference to the yield published by the issuing bank as at the end of the reporting period and period that the Group has held such wealth management products.

(iii) 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 2016 and 31 December 2017.

24 COMMITMENTS

(a) Operating lease commitments

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Within 1 year	**3,356**	250
After 1 year but within 5 years	**4,715**	37
Total	**8,071**	287

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.

(b) Capital commitments

As at the end of each of the reporting period, the Group's authorized capital commitments are as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Contracted but not paid for		
— Leasehold improvement	**16,407**	—

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	2017 RMB'000	2016 RMB'000
Key management personnel remuneration	**2,932**	3,163
Operating lease charges (Notes (i))	**515**	515
Receiving guarantees for borrowing from third parties(Notes (ii))	**385,000**	150,000
Receiving guarantees for debt securities issued (Notes (iii))	**175,000**	425,000
Releasing guarantees for bank loans	**—**	(50,000)
Releasing guarantees for debt securities issued	**(450,000)**	(150,000)
Releasing guarantees for borrowing from third parties	**(180,000)**	—

Notes:

(i) Operating lease charges are paid to the Chairman of the Group for the lease of an office premise.

(ii) The guarantees for borrowing from third parties include:

— Borrowing from a micro-finance company in PRC, with nominal amount totaling RMB55.0 million, were provided by the Chairman of the Company without charges, which will be due on 13 February 2018.

— Borrowing issued on the platform, with nominal amount totaling RMB330.0 million, were provided by the Chairman of the Company without charges, which will be due during the period from 21 May 2018 to 3 August 2018.

(iii) The guarantees for debt securities issued in 2017 were provided by the Chairman of the Company without charges, which was repaid during the period from July 2017 to August 2017.

(b) Balances with key management personnel

	31 December 2017 RMB'000	31 December 2016 RMB'000
Guarantees received for borrowing from third parties	**355,000**	150,000
Guarantees received for debt securities issued	**—**	275,000

25 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Other related party transactions

	2017 RMB'000	2016 RMB'000
Operating lease charges	**1,254**	110
Receiving guarantees for bank loans	**260,000**	250,000
Receiving guarantees for borrowing from third parties	**385,000**	150,000
Receiving guarantees for debt securities issued	**175,000**	425,000
Releasing guarantees for bank loans	**(180,000)**	(150,000)
Releasing guarantees for debt securities issued	**(450,000)**	(150,000)
Releasing guarantees for borrowing from third parties	**(180,000)**	—

(d) Balances with other related parties

	31 December 2017 RMB'000	31 December 2016 RMB'000
Operating lease payable (Notes (i))	**1,144**	—
Guarantees received for bank loans (Notes (ii))	**180,000**	100,000
Guarantees received for borrowing from third parties	**355,000**	150,000
Guarantees received for debt securities issued	**—**	275,000

Notes:

(i) On 6 July 2017, the Company and Zuoli Holdings Group Company Limited entered into a lease agreement, pursuant to which Zuoli Holdings Group Company Limited agreed to lease a property to the Group for a term of 3 years commencing from 7 July 2017 and ending on 6 July 2020.

(ii) The guarantees for bank loans in 2017 were provided by the related parties of the Group without charges, which will be due during the period from 29 June 2018 to 02 July 2018.

26 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.

26 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(a) Impairment of receivables and loans and advances (Continued)

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(i), 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(l). 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.

(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.

26 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(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.

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2017 RMB'000	31 December 2016 RMB'000
Assets			
Cash and cash equivalents		19,711	19,742
Restricted deposits		—	15,000
Available-for-sale financial assets		4,720	—
Interests receivables		15,929	17,039
Loans and advances to customers		1,129,806	1,458,603
Intangible assets		3,964	36
Fixed assets		28,345	17,278
Investments in subsidiary		371,100	371,100
Deferred tax assets		11,014	13,206
Other assets		438,187	31,120
Total assets		2,022,776	1,943,124
Liabilities			
Interest-bearing borrowings		492,344	250,000
Accruals and other payables		34,799	82,944
Debt securities issued		—	278,283
Current taxation		22,940	3,788
Total liabilities		550,083	615,015
NET ASSETS		1,472,693	1,328,109
CAPITAL AND RESERVES	22		
Share capital		1,180,000	1,180,000
Reserves		292,693	148,109
TOTAL EQUITY		1,472,693	1,328,109

(Expressed in RMB'000, unless otherwise stated)

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
Amendments to HKFRS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost will continue with their classification and measurements upon the adoption of HKFRS.

With respect to the Group's financial assets currently classified as "available-for-sale financial assets", these are investments in wealth management products which the Group will classify as fair value through profit or loss on transition to HKFRS 9. This change would give rise to a change in accounting policy as the current accounting policy for available-for-sale investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are reclassified to profit or loss. This change will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group currently does not have any hedge business and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

Based on a preliminary assessment, if the Group were to adopt HKFRS 9 at 31 December 2017, the Group's net assets would decrease by no more than 0.3% as a result of the new requirements on classification and measurement, and impairment as compared with that recognised under HKAS 39.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

The Group assesses that adopting HKFRS 15 would not have a material impact to the Group's financial information.

HKFRS 16, Leases

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for premise which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 24, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB8.1 million for premise. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

29 SUBSEQUENT EVENTS

Pursuant to the Assets Restructuring Agreement and the Capital Injection Agreement entered into by the Company and Jinhui Micro-finance dated 14 November 2017, the Company has injected capital of RMB1,000,000,000 in the form of transferring assets and liabilities into Jinhui Micro-finance.

Upon obtaining approvals from relevant authorities in PRC, the Company will cease to engage in the micro-finance business and surrender its micro-finance license and be transformed into a general holding company. Jinhui Micro-finance will continue to carry on the micro-finance business.

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