# Yangzhou Guangling District Taihe Rural Micro-finance Company Limited

# 揚州市廣陵區泰和農村小額貸款股份有限公司

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

**(Stock Code: 8252)**

## RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

### CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This announcement, for which the directors (the "**Directors**") of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

# Financial Highlights

| | **2017** | 2016 | Changes |
|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | |
| **OPERATING RESULTS** | | | |
| Interest income | **91,338** | 74,495 | 22.6% |
| Profit for the year attributable to owners of the Company | **45,834** | 40,481 | 13.2% |
| Basic earnings per share | **0.08** | 0.09 | -11.1% |
| **FINANCIAL POSITION** | | | |
| Bank balances and cash | **10,579** | 3,553 | 197.8% |
| Total assets | **804,692** | 597,951 | 34.6% |
| Net assets | **790,556** | 580,783 | 36.1% |
| **Dividends** | | | |
| – Proposed final dividend (per share) | **0.08** | — | N/A |

# Statement of Profit or Loss and Other Comprehensive Income

*Year ended 31 December 2017*
*(Amounts expressed in RMB unless otherwise stated)*

| | Notes | Year ended 31 December 2017 | 2016 |
|---|---|---|---|
| Interest income | 5 | **91,337,808** | 74,494,708 |
| Interest expense | 5 | **(97,502)** | (595,772) |
| Interest income, net | 5 | **91,240,306** | 73,898,936 |
| Reversal/(accrual) of provision for impairment losses | | **(7,260,191)** | 2,373,700 |
| Accrual of provision for guarantee losses | | **(58,000)** | — |
| Administrative expenses | 6 | **(20,728,037)** | (22,592,609) |
| Other income/(expenses), net | 7 | **(2,161,792)** | 453,284 |
| **PROFIT BEFORE TAX** | | **61,032,286** | 54,133,311 |
| Income tax expense | 8 | **(15,198,399)** | (13,652,623) |
| **PROFIT AFTER TAX AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **45,833,887** | 40,480,688 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | | | |
| Basic | | **0.08** | 0.09 |
| Diluted | | **0.08** | 0.09 |

# Statement of Financial Position

*31 December 2017*
*(Amounts expressed in RMB unless otherwise stated)*

| | Notes | As at 31 December **2017** | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 9 | **10,578,504** | 3,552,827 |
| Loans receivable | 10 | **787,399,240** | 580,544,326 |
| Property and equipment | | **2,010,562** | 1,483,786 |
| Deferred tax assets | | **4,465,859** | 4,709,204 |
| Other assets | | **238,158** | 7,660,783 |
| **TOTAL ASSETS** | | **804,692,323** | 597,950,926 |
| **LIABILITIES** | | | |
| Deferred income | | **397,701** | — |
| Income tax payable | | **6,642,307** | 5,669,546 |
| Liabilities from guarantees | | **58,000** | — |
| Other liabilities | | **7,037,944** | 11,498,460 |
| **TOTAL LIABILITIES** | | **14,135,952** | 17,168,006 |
| **EQUITY** | | | |
| Share capital | 11 | **600,000,000** | 450,000,000 |
| Reserves | 12 | **95,905,406** | 75,492,976 |
| Retained earnings | | **94,650,965** | 55,289,944 |
| **TOTAL EQUITY** | | **790,556,371** | 580,782,920 |
| **TOTAL EQUITY AND LIABILITIES** | | **804,692,323** | 597,950,926 |

# Statement of Changes in Equity

*Year ended 31 December 2017*

*(Amounts expressed in RMB unless otherwise stated)*

| | | Reserves | | | | |
|---|---|---|---|---|---|---|
| | Paid-in capital | Capital reserve | Surplus reserve | General reserve | Retained earnings | Total |
| Balance as at 1 January 2016 | 450,000,000 | 40,477,627 | 24,772,271 | 6,195,009 | 63,857,325 | 585,302,232 |
| Profit and total comprehensive income for the year | — | — | — | — | 40,480,688 | 40,480,688 |
| Appropriation to surplus reserve | — | — | 4,048,069 | — | (4,048,069) | — |
| Dividends paid | — | — | — | — | (45,000,000) | (45,000,000) |
| Balance as at 31 December 2016 | **450,000,000** | **40,477,627** | **28,820,340** | **6,195,009** | **55,289,944** | **580,782,920** |
| Profit and total comprehensive income for the year | **—** | **—** | **—** | **—** | **45,833,887** | **45,833,887** |
| H shares issued (Note 12) | **150,000,000** | **13,939,564** | **—** | **—** | **—** | **163,939,564** |
| Appropriation to surplus reserve | **—** | **—** | **4,583,389** | **—** | **(4,583,389)** | **—** |
| Appropriation to general reserve | **—** | **—** | **—** | **1,889,477** | **(1,889,477)** | **—** |
| Balance as at 31 December 2017 | **600,000,000** | **54,417,191** | **33,472,562** | **8,084,486** | **94,650,965** | **790,556,371** |

# Statement of Cash Flows

*Year ended 31 December 2017*

*(Amounts expressed in RMB unless otherwise stated)*

| | Notes | Year ended 31 December **2017** | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **61,032,286** | 54,133,311 |
| Adjustments for: | | | |
| Depreciation and amortisation | | **828,382** | 1,415,309 |
| Accrual/(reversal)of provision for impairment losses | | **7,260,191** | (2,373,700) |
| Accrual of provision for guarantee losses | | **58,000** | — |
| Accreted interest on impaired loans | 5 | **(604,784)** | (1,198,719) |
| Net loss on disposal of property and equipment and other assets | | **9,998** | — |
| Interest expense | 5 | **97,502** | 595,772 |
| Foreign exchange loss, net | | **64,415** | — |
| | | **68,745,990** | 52,571,973 |
| Decrease/(increase) in loans receivable | | **(212,592,542)** | 20,119,712 |
| Decrease in other assets | | **134,444** | 241,236 |
| Increase/(decrease) in other liabilities | | **(2,589,936)** | 1,327,815 |
| Net cash flows (used in)/from operating activities before tax | | **(146,302,044)** | 74,260,736 |
| Income tax paid | | **(13,982,293)** | (14,251,282) |
| Net cash flows (used in)/from operating activities | | **(160,284,337)** | 60,009,454 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property and equipment and other long-term assets | | **(1,554,345)** | (29,812) |
| Proceeds from disposal of property and equipment | | **24,515** | — |
| Net cash flows used in investing activities | | **(1,529,830)** | (29,812) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | **178,049,820** | — |
| Proceeds from borrowings | | **10,000,000** | 33,000,000 |
| Repayment of borrowings | | **(10,000,000)** | (41,000,000) |
| Interest paid on borrowings | | **(97,502)** | (655,002) |
| Dividends paid | | **—** | (45,000,000) |
| Cash paid for other financing activities | | **(9,048,059)** | (3,189,332) |
| Net cash flows from/(used in) financing activities | | **168,904,259** | (56,844,334) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **7,090,092** | 3,135,308 |
| Cash and cash equivalents at beginning of the year | | **3,552,827** | 417,519 |
| Effect of foreign exchange rate changes, net | | **(64,415)** | — |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | 9 | **10,578,504** | 3,552,827 |

## 1. CORPORATE INFORMATION

Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (the "**Company**") was established as a limited liability company in the People's Republic of China (the "**PRC**") on 12 November 2008 based on "Su Jin Rong Ban Fa [2008] No. 47" issued by the Pilot Leading Group Office for Rural Micro-finance Organisations of Jiangsu province.

According to the resolution of the shareholders' meeting on 8 August 2012 and "Yang Fu Jin [2012] No. 77" approved by the Yangzhou Municipal Government Financial Office, the Company was converted from a limited liability company to a joint stock company on 10 August 2012. Upon its conversion, the Company issued 260 million shares at a par value of RMB1 each to its shareholders (the "**Shareholders**"), based on the asset appraisal result of RMB300.48 million in respect of its net assets in the financial statements as at 31 July 2012.

In May 2017, the Company conducted a public offering of overseas listed foreign shares ("**H shares**"). Upon the completion of the H share offering, the issued capital was increased to RMB600 million. The Company's H shares are listed on the GEM of the Stock Exchange and trading of its H shares commenced on 8 May 2017.

The Company obtained its business licence with Unified Social Credit No. 91330200711192037M. The legal representative of the Company is Bo Wanlin. Its registered office is located at Beizhou Road, Lidian Village, Guangling District, Yangzhou City, the PRC.

The principal activities of the Company are the granting of loans to Agriculture, Rural Areas and Farmers, provision of financial guarantees, acting as a financial institution agent and other financial businesses.

## 2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial instruments which have been measured at fair value.These financial statements are presented in Renminbi ("**RMB**") except when otherwise indicated.

(Amounts expressed in RMB unless otherwise stated)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Changes in Accounting Policies and Disclosures

The Company has adopted the following revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to IAS 7 | *Disclosure Initiative* |
| Amendments to IAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to IFRS 12 Included in Annual Improvements to IFRSs 2014-2016 Cycle | *Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12* |

Except for the amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle, which are not relevant to the preparation of the Company's financial statements, the nature and impact of the amendments are described below.

(a) Amendments to IAS 7 require an entity 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.

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Company as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

(Amounts expressed in RMB unless otherwise stated)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.2 Impact of Issued But Not Yet Effective International Financial Reporting Standards

The Company has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements:

| | |
|---|---|
| IFRS 2 Amendments | *Classification and Measurement of Share-based Payment Transactions*[1] |
| IFRS 4 Amendments | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1] |
| IFRS 9 | *Financial Instruments*[1] |
| IFRS 9 Amendments | *Prepayment Features with Negative Compensation*[2] |
| IAS 28 Amendments | *Long-term Interests in Associates and Joint Ventures*[2] |
| IFRS 15 | *Revenue from Contracts with Customers*[1] |
| IFRS 15 Amendments | *Revenue from Contracts with Customers (Clarifications to IFRS 15)*[1] |
| IFRS 16 | *Leases*[2] |
| IAS 40 Amendments | *Transfers of Investment Property*[1] |
| IFRIC Interpretation 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| IFRIC Interpretation 23 | *Uncertainty over Income Tax Treatments*[2] |
| IFRS 17 | *Insurance Contracts*[3] |
| Annual Improvements 2014-2016 Cycle | *Amendments to IFRS 1 and IAS 28*[1] |
| IFRS 10 and IAS 28 Amendments | *Sale or Contribution of Assets between and Investor and its Associate or Joint Venture*[4] |

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after 1 January 2021

4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be relevant to the Company is as follows:

In July 2014, the IASB issued the final version of IFRS 9 bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being classified and measured at amortised cost, fair value through other comprehensive income ("**FVOCI**") or fair value through profit or loss. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income ("**OCI**").

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ("**ECL**") resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL).

The assessment of whether credit risk has increased significantly since initial recognition is performed for each financial year by considering the probability of default occurring over the remaining life of the financial instrument.

As a result of the final IFRS 9, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39.

Currently, most of the Company's financial assets, including loans receivable, cash and cash equivalents and other receivables, which generally had maturity profiles of up to one year, are classified and measured at amortised cost, and the Company does not expect the adoption of IFRS 9 to have any material impact on the classification and measurement of its financial assets.

The classification and measurement of financial liabilities remain essentially unchanged from the current IAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit or loss.

The Company expects to adopt IFRS 9 from 1 January 2018. Based on the nature and classification of financial assets and financial liabilities of the Company recorded on the statement of financial position as at 31 December 2017, it is expected that the above new requirements for classification and measurement for financial assets and financial liabilities under IFRS 9 will not have any significant impact on the Company's financial position or performance.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Company expects to adopt IFRS 15 from 1 January 2018. During 2017, the Company performed a preliminary assessment on the impact of the adoption of IFRS 15. The Company's principal revenue is the interest from the granted loans to customers. The expected impact arising from the adoption of IFRS 15 on the Company is immaterial.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future periods.

### Impairment losses on loans receivable

The Company determines periodically whether there is any objective evidence that impairment losses have occurred on loans receivable. If any such evidence exists, the Company assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

### Deferred tax assets and liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. The Company makes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and different interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretations may arise on a wide variety of issues depending on the prevailing conditions affecting the Company.

*(Amounts expressed in RMB unless otherwise stated)*

## 5. INTEREST INCOME, NET

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Interest income on: | | |
| Loans receivable | **91,250,415** | 74,401,083 |
| Cash at banks | **19,805** | 7,666 |
| Cash at a third party | **67,588** | 85,959 |
| Subtotal | **91,337,808** | 74,494,708 |
| Interest expense on: | | |
| Borrowing from other institutions | **97,502** | 595,772 |
| Subtotal | **97,502** | 595,772 |
| Interest income, net | **91,240,306** | 73,898,936 |
| Included: Interest income on impaired loans (Note 10) | **604,784** | 1,198,719 |

## 6. ADMINISTRATIVE EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Staff costs | **4,072,934** | 3,660,037 |
| Business tax and surcharges | **469,650** | 1,025,216 |
| Depreciation | **828,382** | 1,415,309 |
| Leasing expenses | **576,355** | 576,355 |
| Auditor's remuneration | **1,864,975** | 2,424,098 |
| Office expenses | **185,844** | 118,912 |
| Entertainment expenses | **2,584,175** | 1,648,030 |
| Listing expenses | **5,221,535** | 8,273,940 |
| Service fees expenses | **3,163,636** | 1,677,921 |
| Others | **1,760,551** | 1,772,791 |
| Total | **20,728,037** | 22,592,609 |

*(Amounts expressed in RMB unless otherwise stated)*

## 7. OTHER INCOME/(EXPENSES), NET

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Other income: | | |
| Guarantee fee income | **61,921** | — |
| Government grants | **1,186,400** | 476,200 |
| Others | **8,526** | — |
| Subtotal | **1,256,847** | 476,200 |
| Other expenses: | | |
| Foreign exchange gain or loss | **(3,325,704)** | — |
| Fee and commission expense | **(72,937)** | (22,916) |
| Charitable contributions | **(10,000)** | — |
| Loss on disposal of fixed assets | **(9,998)** | — |
| Subtotal | **(3,418,639)** | (22,916) |
| Other income/(expenses), net | **(2,161,792)** | 453,284 |

## 8. INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Current income tax | **14,955,054** | 12,759,519 |
| Deferred income tax | **243,345** | 893,104 |
| | **15,198,399** | 13,652,623 |

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company is domiciled to the tax expense at the effective tax rates is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Profit before tax | **61,032,286** | 54,133,311 |
| Tax at the applicable tax rate | **15,258,072** | 13,533,328 |
| Income not subject to tax | **(315,080)** | (119,050) |
| Adjustments in respect of current income tax of previous years | **—** | (98,275) |
| Expenses not deductible for tax | **255,407** | 336,620 |
| Total tax expense for the year at the Company's effective tax rate | **15,198,399** | 13,652,623 |

## 9. CASH AND CASH EQUIVALENTS

| | 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Cash at a third party | **53,874** | 14,553 |
| Cash at banks | **10,524,630** | 3,538,274 |
| | **10,578,504** | 3,552,827 |

As at 31 December 2017, the cash and cash equivalents of the Company denominated in RMB amounted to RMB9,497,826 (31 December 2016: RMB3,552,827).

*(Amounts expressed in RMB unless otherwise stated)*

## 10. LOANS RECEIVABLE

| | 31 December 2017 | 2016 |
|---|---|---|
| Loans receivable | **811,973,682** | 599,381,140 |
| Less: Allowance for loans receivable | **24,574,442** | 18,836,814 |
| | **787,399,240** | 580,544,326 |

The types of loans receivable are as follows:

| | 31 December 2017 | 2016 |
|---|---|---|
| Guaranteed loans | **766,182,306** | 518,850,072 |
| Loans secured by mortgages | **45,791,376** | 80,531,068 |
| | **811,973,682** | 599,381,140 |
| Less: Allowance for loans receivable | **24,574,442** | 18,836,814 |
| | **787,399,240** | 580,544,326 |

Movements of allowance for loans receivableare as follows:

| | Individually assessed | Collectively assessed | Total |
|---|---|---|---|
| As at 1 January 2016 | 6,112,962 | 16,296,271 | 22,409,233 |
| Charge/(reversal) for the year | 1,244,141 | (3,617,841) | (2,373,700) |
| Accreted interest on impaired loans (Note 5) | (1,198,719) | — | (1,198,719) |
| As at 1 January 2017 | 6,158,384 | 12,678,430 | 18,836,814 |
| Charge for the year | 1,760,243 | 4,582,169 | 6,342,412 |
| Accreted interest on impaired loans (Note 5) | (604,784) | — | (604,784) |
| **As at 31 December 2017** | **7,313,843** | **17,260,599** | **24,574,442** |

*(Amounts expressed in RMB unless otherwise stated)*

## 11. SHARE CAPITAL

| | 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Issued and fully paid | **600,000,000** | 450,000,000 |

Movements in the Company's share capital are as follows:

| | **Number of shares in issue** | **Share capital** |
|---|---|---|
| At 1 January 2016, 31 December 2016 and 1 January 2017 | 450,000,000 | 450,000,000 |
| H shares issued | 150,000,000 | — |
| **At 31 December 2017** | **600,000,000** | **450,000,000** |

On 8 May 2017, 150,000,000 ordinary shares of the Company of RMB1.00 each were issued at HKD1.34 (equivalent to approximately RMB1.19) each for a total cash consideration, before issue expenses, of RMB178.05 million through an initial public offering.

## 12. RESERVES

The amounts of the Company's reserves and the movements therein for each financial year are presented in the statement of changes in equity.

### Capital reserve

Capital reserve comprises share premium arising from the difference between the par value of the shares issued by the Company and the net asset value in the financial statements as at 31 July 2012 during the conversion of the Company into a joint stock company and the difference between the par value of the shares of the Company and the proceeds received from the issuance of the shares of the Company.

### Surplus reserve

Surplus reserve represents statutory surplus reserve.

The Company is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles of Association of the Company to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the Shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Company, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

### General reserve

According to the Financial regulations of micro-finance rural companies in Jiangsu (Trial) (Su Cai Gui [2009] No.1) (《江蘇省農村小額貸款公司財務制(試行)》(蘇財規[2009]1號)), the Company is required to set aside a general reserve which is not less than 1% of the ending balance of loans receivable through equity.

For the year ended 31 December 2017, the Company made appropriation to the general reserve amounting to RMB 1,889,477.

*(Amounts expressed in RMB unless otherwise stated)*

## 13. SEGMENT INFORMATION

Almost all of the Company's revenue was generated from the provision of loans to small and medium sized enterprises ("**SMEs**") and micro-enterprises located at Yangzhou, Jiangsu Province in Mainland China during the year ended 31 December 2017. There is no other main segment except the loan business.

## 14. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements were as follows:

| | **31 December** | |
|---|---|---|
| | **2017** | 2016 |
| Financial guarantee contracts | **5,800,000** | — |

## 15. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2017 and 2016 are as follows:

| | **31 December** | |
|---|---|---|
| | **2017** | 2016 |
| **Financial assets** | | |
| Loans and receivables | | |
| – Cash at banks and a third party | **10,578,504** | 3,552,827 |
| – Loans receivable | **787,399,240** | 580,544,326 |
| – Other receivables | **238,158** | 1,125,707 |
| | **798,215,902** | 585,222,860 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | | |
| – Other payables | **1,254,643** | 6,021,925 |
| | **1,254,643** | 6,021,925 |

## 16. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The main risks arising from the Company's financial instruments include credit risk, foreign currency risk, interest rate risk and liquidity risk. The Company has no significant exposures to other financial risks except as disclosed below. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

### (a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. The Company manages the loans granted to SMEs, micro-enterprises and individual proprietors with the same rules and procedures.

The principal features of the Company's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit assessment, granting of credit limit, loan evaluation, loan review and approval, granting of loan and post-disbursement loan monitoring;

A loan classification approach has been adopted to manage loan portfolio risk. The loans are categorised as "normal","special-mention", "substandard", "doubtful" or "loss" according to their levels of risk. The core definitions of the five categories of loans receivable are set out below:

- Normal: borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.
- Special-mention: borrowers are currently able to repay their loans and interest, although repayment may be adversely affected by specific factors.
- Substandard: borrowers' ability to repay their loans is in question and cannot rely entirely on normal business revenues to repay the principal and interest. Losses may ensue even when collateral items or guarantees are invoked.
- Doubtful: borrowers cannot repay the principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
- Loss: principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

To enhance the credit risk management practices, the Company also launches training programs periodically for credit officers at different levels.

The Company's financial assets include cash at banks, loans receivable and other receivables. The credit risk of these assets mainly arose from the counterparties' failure to discharge their contractual obligations, with major exposure equal to the carrying amounts.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, or infringement of the original terms of the contract. The Company addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

***Individually assessed allowances***

All loans receivable are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Loans that are classified as substandard, doubtful or loss are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or advance has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in profit or loss. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensure;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each financial year, unless unforeseen circumstances require more careful attention.

*(Amounts expressed in RMB unless otherwise stated)*

***Collectively assessed allowances***

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- The adverse changes in arrears of the borrowers; and
- Areas or local economic conditions that correlate with defaults.

Collateral and other credit enhancements

The Company implements guidelines on the acceptability of specific classes of collateral from customer. The principal collateral types for loans to customers are:

- Real estate, including residential and commercial properties; and
- Equipment.

The Company also focuses on ascertaining legal ownership, condition and the valuation of the collaterals. A collateral backed loan is granted on the basis of the fair value of the collateral. The Company continues to monitor the value of the collateral throughout the loan period.

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

| **31 December 2017** | **Overdue within 3 months** | **Overdue more than 3 to 12 months** | **Overdue more than 1 year** | **Total** |
|---|---|---|---|---|
| Guaranteed loans | **1,185,000** | **52,500** | **2,393,076** | **3,630,576** |
| Collateral-backed loans | **844,650** | **—** | **6,513,745** | **7,358,395** |
| | **2,029,650** | **52,500** | **8,906,821** | **10,988,971** |

| 31 December 2016 | Overdue within 3 months | Overdue more than 3 to 12 months | Overdue more than 1 year | Total |
|---|---|---|---|---|
| Guaranteed loans | — | 712,500 | 1,680,000 | 2,392,500 |
| Collateral-backed loans | 87,570 | 250,000 | 7,338,680 | 7,676,250 |
| | 87,570 | 962,500 | 9,018,680 | 10,068,750 |

*(Amounts expressed in RMB unless otherwise stated)*

Credit quality of loans receivable

A loan or advance is identified as an impaired loan if there is objective evidence indicating that the loan's estimated future cash flows are influenced by one or several factors and the impact can be estimated reliably.

The table below shows the credit quality for loans receivable. The amounts presented are gross of impairment allowances.

| | **Neither past due nor impaired** | **Past due but not impaired** | **Individually impaired** | **Total** |
|---|---|---|---|---|
| **31 December 2017** | **800,984,711** | **2,029,650** | **8,959,321** | **811,973,682** |
| 31 December 2016 | 589,312,390 | 87,570 | 9,981,180 | 599,381,140 |

As 31 December 2017, loans receivable neither past due nor impaired are related to various diversified customers with no recent default history.

As at 31 December 2017 and 2016, loans receivable past due but not impaired were related to the customers with good credit records or adequate collateral. According to the past experience, the Company does not recognise individually assessed allowances for these loans receivable since there is no significant change in credit quality and the amounts can be recovered in full.

Loans receivable are identified as impaired loans receivable if there is objective evidence indicating that the estimated future cash flows of the loans are influenced by one or several factors and the impact can be estimated reliably.

Analysis of risk concentration

The Company manages its exposure to the concentration of credit risk by customer, geographic region and industry. The customers of the Company are located mainly in rural area, and they are concentrated in a geographic region, Yangzhou, but the Company provides loans to a wide variety of customers that operate in different industries to mitigate its exposure to such risks. Given the regulatory restriction on the Company's geographical area of operation, there is credit risk arising from geographic concentration.

### (b) Foreign currency risk

The Company operates principally in the PRC with only limited exposure to foreign exchange rate risk arising primarily from certain bank deposits denominated in HKD.

The following table demonstrates the sensitivity at 31 December 2017 and 2016 to a reasonably possible change in the HKD exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets).

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| **Changes in HKD exchange rate** | **Impact on profit before tax** | Impact on profit before tax |
| +5% | **53,942** | — |
| – 5% | **(53,942)** | — |

### (c) Interest rate risk

The Company's exposure to the risk of changes in interest rates relates primarily to its cash at banks, loans receivable and interest-bearing borrowings. All of the Company's loans receivable bear interest at fixed rate. They are much influenced by the mismatch of repricing days of interest-generating assets and interest-bearing liabilities. The Company does not use derivative financial instruments to manage its interest rate risk.

The following table demonstrates the sensitivity as at 31 December 2017 and 2016 to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate of cash at banks and a third party). The Company's equity is not affected, other than the consequential effect on retained earnings (a component of the Company's equity) affected by the changes in profit before tax.

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| **Changes in RMB interest rate** | **Impact on profit before tax** | Impact on profit before tax |
| + 50 basis points | **52,893** | 17,764 |
| – 50 basis points | **(52,893)** | (17,764) |

*(Amounts expressed in RMB unless otherwise stated)*

### (d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company seeks to manage its liquidity risk by circulating liquidity facilities, considering the maturity date of financial instruments and estimated cash flows from operation.

The tables below summarise the maturity profiles of the financial assets and financial liabilities of the Company based on undiscounted contractual cash flows:

| | 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | **On demand** | **Past due** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **Total** |
| Financial assets: | | | | | | |
| Cash at banks and a third party | **10,578,504** | **—** | **—** | **—** | **—** | **10,578,504** |
| Loans receivable | **—** | **10,988,971** | **148,483,631** | **712,900,652** | **—** | **872,373,254** |
| Other assets | **1,155,937** | **—** | **—** | **—** | **—** | **1,155,937** |
| Subtotal | **11,734,441** | **10,988,971** | **148,483,631** | **712,900,652** | **—** | **884,107,695** |
| Financial liabilities: | | | | | | |
| Other liabilities | **—** | **—** | **1,104,699** | **139,944** | **10,000** | **1,254,643** |
| Subtotal | **—** | **—** | **1,104,699** | **139,944** | **10,000** | **1,254,643** |
| Net | **11,734,441** | **10,988,971** | **147,378,932** | **712,760,708** | **(10,000)** | **882,853,052** |
| Off-balance sheet guarantee | **—** | **—** | **—** | **5,800,000** | **—** | **5,800,000** |

| | 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Past due | Less than 3 months | 3 to 12 months | 1 to 5 years | Total |
| Financial assets: | | | | | | |
| Cash at banks and a third party | 3,552,827 | — | — | — | — | 3,552,827 |
| Loans receivable | — | 10,068,750 | 157,327,051 | 472,821,339 | — | 640,217,140 |
| Other assets | 1,125,707 | — | — | — | — | 1,125,707 |
| Subtotal | 4,678,534 | 10,068,750 | 157,327,051 | 472,821,339 | — | 644,895,674 |
| Financial liabilities: | | | | | | |
| Other liabilities | — | — | — | 6,011,925 | 10,000 | 6,021,925 |
| Subtotal | — | — | — | 6,011,925 | 10,000 | 6,021,925 |
| Net | 4,678,534 | 10,068,750 | 157,327,051 | 466,809,414 | (10,000) | 638,873,749 |

*(Amounts expressed in RMB unless otherwise stated)*

### (e) Capital management

According to the Opinions on Supporting and Restricting the Rural Micro-Finance Companies in Jiangsu Province (Provisional) (Su Jin Rong Ban Fa [2013] No. 103) (《關於深入推進農村小額貸款公司改革發展的意見》(蘇政辦發[2013] 103號)), the liabilities of micro-finance rural companies should not exceed 100% of net capital and the contingent liabilities should not exceed 250% of the net capital.

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise Shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the dividend payment to the Shareholders, return capital to the Shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

The Company monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing borrowings, less cash and cash equivalents. Management regards total equity which includes share capital, reserves and retained earnings as capital. The gearing ratios as at 31 December 2017 and 2016 were as follows:

| | **31 December** | |
|---|---|---|
| | **2017** | 2016 |
| Interest-bearing borrowings | **—** | — |
| Less: Cash and cash equivalents | **10,578,504** | 3,552,827 |
| Net debt | **(10,578,504)** | (3,552,827) |
| Share capital | **600,000,000** | 450,000,000 |
| Reserves | **95,905,406** | 75,492,976 |
| Retained earnings | **94,650,965** | 55,289,944 |
| Capital | **790,556,371** | 580,782,920 |
| Capital and net debt | **779,977,867** | 577,230,093 |
| Gearing ratio | **N/A** | N/A |

## 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's financial assets mainly include cash at banks and a third party and loans receivable.

The Company's financial liabilities mainly include other payables.

Due to the short remaining period or periodical repricing to reflect the market price, the carrying amounts of these financial assets and liabilities approximate to their fair values.

# Management Discussion And Analysis

## BUSINESS REVIEW

During the year ended 31 December 2017, the Company continued to pursue business opportunities, strengthen its market position and achieve stable operating results. For the year ended 31 December 2017, the Company recorded gross interest income of approximately RMB 91.3 million, representing an increase of approximately 22.6% as compared to approximately RMB 74.5 million for the year ended 31 December 2016; and profit after tax of approximately RMB 45.8 million, representing an increase of approximately 13.2% as compared to approximately RMB 40.5 million for the year ended 31 December 2016. As at 31 December 2017, the Company's balance of outstanding loans (before allowance for impairment losses) was approximately RMB 812.0 million, representing an increase of approximately 35.5% as compared to approximately RMB 599.4 million as at 31 December 2016. Total assets as at 31 December 2017 were approximately RMB 804.7 million, representing an increase of approximately 34.6% as compared to approximately RMB 598.0 million as at 31 December 2016, and net assets were approximately RMB 790.6 million as at 31 December 2017, representing an increase of approximately 36.1% as compared to approximately RMB 580.8 million as at 31 December 2016.

### The number of customers

We have a relatively broad customer base comprising primarily SMEs, micro-enterprises and individual proprietors situated or resided in Yangzhou City. Our customers are engaged in a variety of industries, and a majority of which are also under the classification of AFR (三農) of the People's Bank of China. We consider the diversity of industries and businesses of our customers, coupled with our relatively small individual loan size, serve to alleviate our risk of concentration and position us to better withstand periodic business and economic cycles of different industries. For the year ended 31 December 2016 and 2017, we granted loans to 381 and 498 customers, respectively. The following table sets forth the number of customers to whom we have granted loans for the periods indicated:

### The number of customers

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | ***No. of Customers*** | ***%*** | *No. of Customers* | *%* |
| **Customer by type** | | | | |
| SMEs and micro-enterprises | **39** | **7.8** | 26 | 6.8 |
| Individual proprietors | **459** | **92.2** | 355 | 93.2 |
| **Total** | **498** | **100.0** | 381 | 100.0 |

## Loan portfolio by size

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

| | **As at 31 December 2017** | | As at 31 December 2016 | |
|---|---|---|---|---|
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| **Less than or equal to RMB0.5 million** | | | | |
| – Guaranteed loans | **20,555** | **2.5** | 10,275 | 1.8 |
| – Collateralized loans | **8,919** | **1.1** | 8,470 | 1.4 |
| | **29,474** | **3.6** | 18,745 | 3.2 |
| **Over RMB0.5 million but less than or equal to RMB1 million** | | | | |
| – Guaranteed loans | **58,650** | **7.2** | 34,935 | 5.8 |
| – Collateralized loans | **1,522** | **0.2** | 5,549 | 0.9 |
| | **60,172** | **7.4** | 40,484 | 6.7 |
| **Over RMB1 million but less than or equal to RMB2 million** | | | | |
| – Guaranteed loans | **319,849** | **39.4** | 368,303 | 61.4 |
| – Collateralized loans | **14,262** | **1.8** | 17,288 | 2.9 |
| | **334,111** | **41.2** | 385,591 | 64.3 |
| **Over RMB2 million but less than or equal to RMB3 million** | | | | |
| – Guaranteed loans | **367,128** | **45.2** | 105,337 | 17.6 |
| – Collateralized loans | **21,089** | **2.6** | 49,224 | 8.2 |
| | **388,217** | **47.8** | 154,561 | 25.8 |
| **Total** | **811,974** | **100** | 599,381 | 100 |

### Loan portfolio by security

We accept (i) loans backed by guarantees, (ii) loans secured by collaterals, or (iii) loans backed and secured by both guarantees and collaterals. The following table sets forth the balance of our outstanding loans (including loans granted before 1 January 2017) by security as at the dates indicated:

| | **As at 31 December 2017** | | As at 31 December 2016 | |
|---|---|---|---|---|
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| Guaranteed loans | **766,182** | **94.4** | 518,850 | 86.6 |
| Collateralized loans | **45,792** | **5.6** | 80,531 | 13.4 |
| included: Guaranteed and collateralized loans | **42,708** | **5.3** | 77,466 | 12.9 |
| **Total** | **811,974** | **100** | 599,381 | 100 |

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

| | **Year ended 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| Guaranteed loans | **529** | 395 |
| Collateralized loans | **54** | 68 |
| included: Guaranteed and collateralized loans | **54** | 67 |
| **Total** | **583** | 463 |

### Asset quality

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

| | **As at 31 December 2017** | | As at 31 December 2016 | |
|---|---|---|---|---|
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| Normal | **800,985** | **98.6** | 588,991 | 98.2 |
| Special-Mention | **2,030** | **0.3** | 409 | 0.1 |
| Substandard | **—** | **0.0** | 5,092 | 0.9 |
| Doubtful | **3,668** | **0.5** | 1,790 | 0.3 |
| Loss | **5,291** | **0.6** | 3,099 | 0.5 |
| Total | **811,974** | **100** | 599,381 | 100 |

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

| | **As at 31 December 2017** | As at 31 December 2016 |
|---|---|---|
| **Impaired loan ratio** | **1.1%** | 1.7% |
| Balance of impaired loans (RMB'000) | **8,959** | 9,981 |
| Total amount of loans receivable (RMB'000) | **811,974** | 599,381 |

| | **As at 31 December 2017** | As at 31 December 2016 |
|---|---|---|
| **Allowance coverage ratio** | **274.3%** | 188.7% |
| Allowance for impairment losses (RMB'000) | **24,574** | 18,837 |
| Balance of impaired loans (RMB'000) | **8,959** | 9,981 |
| **Provisions for impairment losses ratio** | **3.0%** | 3.1% |

| | **As at 31 December 2017** | As at 31 December 2016 |
|---|---|---|
| Balance of overdue loans (RMB'000) | **10,989** | 10,069 |
| Total amount of loans receivable (RMB'000) | **811,974** | 599,381 |
| **Overdue loan ratio** | **1.4%** | 1.7% |

# Management Discussion And Analysis

## FINANCIAL REVIEW

### Interest income

Our gross interest income increased by approximately 22.6% from approximately RMB 74.5 million for the year ended 31 December 2016 to approximately RMB 91.3 million for the year ended 31 December 2017. This increase was mainly attributable to an increase in the average daily balance of our loans receivable of approximately 19.6% from approximately RMB 584.5 million for the year ended 31 December 2016 to approximately RMB 698.9 million for the year ended 31 December 2017 and an increase in the average interest rate per annum from 12.73% for the year ended 31 December 2016 to 13.06% for the year ended 31 December 2017, partially offset by the imposition of value – added tax ("**VAT**") on our interest income in lieu of business tax with effect from 1 May 2016, as our interest income has been recognized net of applicable VAT starting from 1 May 2016.

### Interest expense

Our interest expense decreased from RMB 0.6 million for the year ended 31 December 2016 to RMB 0.1 million for the year ended 31 December 2017, primarily due to the decrease in our average daily balance of borrowings from approximately RMB 5.2 million for the year ended 31 December 2016 to RMB 1.5 million for the year ended 31 December 2017.

### Reversal/(accrual) of provision for impairment losses

We had reversal of provision for impairment losses of approximately RMB 2.4 million and accrual of provision for impairment losses of RMB 7.3 million for the year ended 31 December 2016 and 2017, respectively. The Balance of impaired loans decreased from RMB 10.0 million as at 31 December 2016 to RMB 9.0 as at 31 December 2017. As our Company has adopted prudent provision policies, the increase in our balance of loans receivable for the year ended 31 December 2017 had led to the accrual of provision for impairment losses.

### Administrative expenses

Our administrative expenses decreased by approximately 8.4% from approximately RMB 22.6 million for the year ended 31 December 2016 to approximately RMB 20.7 million for the year ended 31 December 2017. This was primarily due to a decrease in auditor's remuneration, business tax and surcharges.

### Income tax expense

Income tax expense increased by approximately 10.9% from approximately RMB 13.7 million for the year ended 31 December 2016 to approximately RMB 15.2 million for the year ended 31 December 2017. Such increase was mainly attributable to an increase in current income tax of approximately RMB 2.2 milliion.

### Profit after tax and total comprehensive income

As a result of the foregoing, our profit after tax and total comprehensive income increased by approximately 13.2% from approximately RMB 40.5 million for the year ended 31 December 2016 to approximately RMB 45.8 million for the year ended 31 December 2017.

### Significant investments

The Company has no significant investment during the year ended 31 December 2017.

### Material acquisitions or disposals of subsidiaries and affiliated companies

The Company has no material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2017.

### Future plans for material investments or capital assets and expected sources of funding

The Company has no specific future plans for material investments or capital assets as at 31 December 2017.

### Foreign exchange risk

The Company operates principally in the PRC with only limited exposure to foreign exchange rate risk arising primarily from certain bank deposits denominated in HKD after being listed on the GEM in Hong Kong on 8 May 2017 ("**Listing**"), the balance of which is approximately HK$ 1.29 million as at 31 December 2017.

### Liquidity, financial resources and capital structure

As at 31 December 2017, the Company had bank balances and cash of approximately RMB 10.6 million (31 December 2016: approximately RMB 3.6 million). The Company had no interest-bearing borrowings as at 31 December 2016 and 2017. The gearing ratio, representing the ratio of total borrowings to total assets of the Company, was nil as at 31 December 2017 (31 December 2016: nil).

During the year ended 31 December 2017, the Company did not use any financial instruments for hedging purposes.

### Indebtedness and charges on assets

As at 31 December 2016 and 2017, the Company did not have any borrowings. As at 31 December 2017, the Company did not pledge any of its assets to secure any banking facility or bank loan.

# Management Discussion And Analysis

### Contingent liabilities

Contingent liabilities not provided for in the financial statements were as follows:

| | **As at 31 December 2017** | As at 31 December 2016 |
|---|---|---|
| Financial guarantee contracts | **5,800,000** | — |

### Use of proceeds

The actual net proceeds from the Listing (after deducting underwriting fees and commissions and listing related expenses) amounted to approximately HK$ 185.4 million (equivalent to approximately RMB 161.1 million). As at 31 December 2017, the Company had utilized approximately HK$ 166.9 million (equivalent to approximately RMB 145.1 million) of the actual net proceeds principally to expand our loan portfolio for our micro and small loan business. The following table sets out the status of our deployment of actual net proceeds as at 31 December 2017:

| | **Allocated net proceeds** *(RMB million)* | **Funds deployed as at 31 December 2017** *(RMB million)* | **Unutilized funds as at 31 December 2017** *(RMB million)* |
|---|---|---|---|
| Expand our loan portfolio in the following markets: | | | |
| Hanjiang District and Guangling District | 83.0 | 83.0 | — |
| Jiangdu District | 10.4 | 10.4 | — |
| Yizheng (county-level city) | 20.9 | 20.9 | — |
| Gaoyou (county-level city) | 14.5 | 14.5 | — |
| Baoying (county-level city) | 16.3 | 16.3 | — |
| Subtotal: | 145.1 | 145.1 | — |
| Working capital and other general corporate purposes | 16.0 | 15.0 | 1.0 |
| Total: | 161.1 | 160.1 | 1.0 |

# Management Discussion And Analysis

## FINAL DIVIDEND

The Board recommend the payment of a final dividend of RMB0.08 per share for the year ended 31 December 2017 to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company on 29 May 2018. The final dividend will be payable in or about 15 June 2018.

## MATERIAL LITIGATION AND ARBITRATION

As at 31 December 2017, the Company was not involved in any material litigation or arbitration.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Company had 33 full-time employees (31 December 2016: 29 full-time employees). Quality of our employees is the most important factor in maintaining a sustained development and growth of the Company and in improving its profitability. We offer a base salary with bonuses based on our employees' performance, as well as benefits and allowances to all our employees as an incentive. Total remuneration of the Company for the year ended 31 December 2017 was approximately RMB4.1 million (for the year ended 31 December 2016: approximately RMB3.7 million).

## OUTLOOK

During the year of 2017, the Gross Domestic Product ("the **GDP**") of Jiangsu Province exceeded RMB 8.0 trillion for the first time, ranking second in China and representing a year-on-year growth rate of 7.2%. For the same period, the GDP of Yangzhou City was approximately RMB 506.5 billion, representing a year-on-year growth rate of 8.0%. The growth rate ranked fourth in Jiangsu Province. The steady growth of the economy of Jiangsu Province and Yangzhou City provided a good external economic environment for the business development of the Company. In 2017, the Chinese government introduced a series of policies that were conducive to improving the multi-level credit market and developing inclusive finance. The introduction of these policies has created a fair, transparent and sustainable policy environment and system basis for the development of microfinance companies.

With the successful listing of the Company on GEM of the Stock Exchange on 8 May 2017, the capital base of the Company has been further expanded. Meanwhile, the Company continues to promote the implementation of the strategic plan and meticulous management initiatives to further strengthen the Company's competitive advantages. In terms of business strategies, the Company has expanded our customer base by further penetrating the existing market, while expanding and strengthening our back-office operation support.

The objective of the Company is to become a leading regional microfinance company focusing on meeting the interim business financing needs of SMEs, micro-enterprises and individual proprietors. Looking ahead, the Board and all staff of the Company will make pioneering and innovative efforts and keep pace with the times to create greater values for our customers, employees and Shareholders.

# Others

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

## AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") on 31 January 2015 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The written terms of reference of the Audit Committee was adopted in compliance with paragraphs C.3.3 and C.3.7 of the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting, risk management and internal control system, oversee the audit process and to provide advice and comments to the Board. The Audit Committee consists of three members, being Mr. Chan So Kuen, Mr. Bao Zhenqiang and Mr. Wu Xiankun. Mr. Chan So Kuen currently serves as the chairman of the Audit Committee.

The Company's consolidated results and the results announcement for the year ended 31 December 2017 have been reviewed by the Audit Committee. The Board is of opinion that the preparation of such financial information complied with the applicable accounting standards, the requirements under the GEM Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

## CORPORATE GOVERNANCE

The Company has complied with the requirements of the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules since 8 May 2017 (being the date of listing of the Company's H shares on GEM of the Stock Exchange) and up to the date of this announcement.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

During the year ended 31 December 2017, the Company adopted a code of conduct regarding securities transactions by Directors and Supervisors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors and Supervisors, the Directors and Supervisors have confirmed that they have complied with such code of conduct and required standard of dealings since 8 May 2017 and up to the date of this announcement. The Company continues and will continue to ensure compliance with the code of conduct.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed public float required by the GEM Listing Rules for the year ended 31 December 2017 and up to the date of this announcement.

# Others

## EVENT AFTER THE YEAR END

Up to the date of this announcement, there was no significant event relevant to the business or financial performance of the Company that comes to the attention of the Directors after the year ended 31 December 2017.

## INTEREST OF THE COMPLIANCE ADVISER

As confirmed by the Company's compliance adviser, China Galaxy International Securities (Hong Kong) Co., Limited (the "**Compliance Adviser**"), save for the compliance adviser agreement dated 16 August 2016 and the supplemental agreement dated 31 March 2017 entered into between the Company and the Compliance Adviser, none of the Compliance Adviser or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Company or in the share capital of any member of the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

By Order of the Board
**Yangzhou Guangling District Taihe Rural**
**Micro-finance Company Limited**
**Bo Wanlin**
*Chairman*

Yangzhou, the PRC, 16 March 2018

*As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Bo Wanlin, Ms. Bai Li and Ms. Zhou Yinqing; two non-executive Directors, namely Mr. Bo Nianbin and Mr. Zuo Yuchao and three independent non-executive Directors, namely Mr. Bao Zhenqiang, Mr. Wu Xiankun and Mr. Chan So Kuen.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website (www.hkgem.com) for at least 7 days from the date of its publication and on the website of the Company (www.gltaihe.com).*