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

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

(Stock Code: 6866)

2014 ANNUAL RESULTS ANNOUNCEMENT

The board (the "**Board**") of directors (the "**Directors**") of Zuoli Kechuang Micro-finance Company Limited (the "**Company**") is pleased to announce the audited annual results (the "**Annual Results**") of the Company for the year ended 31 December 2014 prepared in accordance with the Hong Kong Financial Reporting Standards (the "**HKFRSs**") promulgated by the Hong Kong Institute of Certified Public Accountants. The Board and the audit committee have reviewed and confirmed the Annual Results.

ANNUAL RESULTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2014
(Expressed in Renminbi ("RMB"))

		Year ended 31 December	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Interest income		**160,237**	90,789
Interest and commission expenses		**(11,464)**	(12,335)
Net interest income	2	**148,773**	78,454
Other revenue	3	**19,985**	5,626
Impairment losses	4	**(21,754)**	(2,450)
Administrative expenses		**(22,429)**	(12,660)
Profit before taxation	5	**124,575**	68,970
Income tax	6	**(31,176)**	(17,354)
Profit and total comprehensive income for the year		**93,399**	51,616
Earnings per share			
Basic and diluted (RMB)	9	**0.12**	0.14

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014

(Expressed in RMB)

	Note	**At 31 December 2014** *RMB'000*	At 31 December 2013 *RMB'000*
Assets			
Cash and cash equivalents	*10*	**24,488**	81,100
Trading financial assets	*11*	**—**	150,000
Interest receivables		**9,795**	8,622
Loans and advances to customers	*12*	**1,109,394**	517,238
Fixed assets	*13*	**1,636**	1,630
Deferred tax assets	*17(b)*	**15,182**	6,131
Other assets	*14*	**16,922**	12,027
Total assets		**1,177,417**	776,748
Liabilities			
Interest-bearing borrowings	*15*	**175,000**	171,000
Accruals and other payables	*16*	**21,798**	6,426
Current tax liabilities	*17(a)*	**9,740**	9,842
Total liabilities		**206,538**	187,268
—	—		
NET ASSETS		**970,879**	589,480
CAPITAL AND RESERVES	*18*		
Share/paid-in capital		**880,000**	510,000
Reserves		**90,879**	79,480
TOTAL EQUITY		**970,879**	589,480

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014
(Expressed in RMB)

	Paid-in/ share capital	Capital/share reserve	Surplus reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 18(c)	*Note 18(d)(i)*	*Note 18(d)(ii)*		
Balance at 1 January 2013	320,000	2,892	2,657	23,915	349,464
Changes in equity for 2013:					
Profit and total comprehensive income for the year	—	—	—	51,616	51,616
Capital injection *(Note 18(c))*	190,000	30,400	—	—	220,400
Appropriation to surplus reserve	—	—	5,162	(5,162)	—
Dividends to equity holders *(Note 18(b))*	—	—	—	(32,000)	(32,000)
Balance at 31 December 2013	510,000	33,292	7,819	38,369	589,480
Balance at 1 January 2014	510,000	33,292	7,819	38,369	589,480
Changes in equity for for 2014:					
Profit and total comprehensive income for the year	**—**	**—**	**—**	**93,399**	**93,399**
Capital injection *(Note 18(c))*	**240,000**	**48,000**	**—**	**—**	**288,000**
Appropriation to surplus reserve	**—**	**—**	**7,858**	**(7,858)**	**—**
Conversion into joint stock limited liability company	**130,000**	**(68,989)**	**(7,819)**	**(53,192)**	**—**
Balance at 31 December 2014	**880,000**	**12,303**	**7,858**	**70,718**	**970,879**

CASH FLOW STATEMENT

for the year ended 31 December 2014
(Expressed in RMB)

		Year ended 31 December	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Operating activities			
Cash used in operations	*10(b)*	**(433,805)**	(2,250)
PRC income tax paid		**(40,329)**	(17,559)
Net cash used in operating activities		**(474,134)**	(19,809)
Investing activities			
Proceeds from disposal of investments		**670,634**	1,913,578
Payments for purchase of fixed assets		**(701)**	(30)
Payments on acquisition of investments		**(520,470)**	(2,062,610)
Net cash generated from/(used in) investing activities		**149,463**	(149,062)
Financing activities			
Proceeds from capital injection		**288,000**	220,400
Proceeds from new borrowings		**245,000**	211,000
Repayment of borrowings		**(241,000)**	(160,000)
Interest paid		**(8,311)**	(11,885)
Dividends paid		**(2,844)**	(29,156)
Cash paid for other financing activities		**(12,786)**	—
Net cash generated from financing activities		**268,059**	230,359
Net (decrease)/increase in cash and cash equivalents		**(56,612)**	61,488
Cash and cash equivalents at 1 January		**81,100**	19,612
Cash and cash equivalents at 31 December	*10(a)*	**24,488**	81,100

The accompanying notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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 (the "Listing Rules").* A summary of the significant accounting policies adopted by the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing these financial statements, the Company has adopted all applicable new and revised HKFRSs to the year ended 31 December 2014, except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 January 2014. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning 1 January 2014 are set out in Note 23.

(b) Basis of measurement

The financial statements are presented in RMB, rounded to the nearest thousand. It is prepared on the historical cost basis except for trading financial assets (see Note 1(f)) that are stated at their fair value.

(c) Use of estimates and judgments

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 22.

(d) Fixed assets

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

The cost of self-constructed items of fixed assets includes the cost of materials, direct labour and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Office and other equipment	5 years
Motor vehicles	5 years
Electronic equipment	5 years
Leasehold improvement	5 years

Where parts of an item of fixed assets have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) ***Classification of assets leased to the Company***

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases.

(ii) ***Operating lease charges***

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(f) Financial instruments

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

A financial asset or financial liability is recognized in the statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument.

Financial assets and financial liabilities are measured initially at fair value, plus, for instruments not classified as at fair value through profit or loss, any directly attributable transaction costs.

Financial assets and financial liabilities are categorized as follows:

— *Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)*

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

(a) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; or

(b) the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognized in profit or loss.

— *Loans and receivables*

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

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

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

(c) those where the Company may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Subsequent to initial recognition, loans and receivables are stated at amortized cost using the effective interest method.

— *Other financial liabilities*

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

(ii) *Impairment of financial assets*

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Company at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss event:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— disappearance of an active market for financial assets because of financial difficulties of the issuer;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

Loans and receivables

The Company uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

— Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The impairment losses are recognized in profit or loss.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

— Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The Company periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provisions for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

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

(iii) ***Fair value measurement***

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset and financial liability, the Company considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Company obtains market data from the same market where the financial instrument was originated or purchased.

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

Financial assets (or a part of a financial asset or group of financial assets) are 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 Company transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Company continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Company and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognized in profit or loss.

(v) ***Offsetting***

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Company has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(vi) ***Equity instruments***

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all liabilities of the Company. Considerations received from issuance of equity instruments net of transaction costs are recognized in equity. Considerations and transaction costs paid by the Company for repurchasing its own equity instruments are deducted from equity.

(g) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(i) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that fixed assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

— ***Calculation of recoverable amount***

The recoverable amount of an asset is greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— ***Recognition of impairment losses***

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— ***Reversals of impairment losses***

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(j) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plan

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pursuant to the relevant laws and regulations of the PRC, the Company has joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Company makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis.

(k) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credit, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(l) Provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) ***Interest income***

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

(ii) ***Government grants***

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

(n) Borrowing costs

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

(o) Related parties

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

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

(ii) has significant influence over the Company; or

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

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

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(p) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 NET INTEREST INCOME

The principal activity of the Company is the provision of loans to customers in Deqing, County, Zhejiang Province, the PRC. The amount of each significant category of revenue recognized is as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Interest income arising from		
Loans and advances to customers	**159,954**	90,697
Cash at banks	**283**	92
	160,237	90,789
Interest and commission expenses arising from		
Borrowings from banks	**(11,320)**	(12,174)
Borrowings from non-bank institutions	**(99)**	(125)
Bank charges	**(45)**	(36)
	(11,464)	(12,335)
Net interest income	**148,773**	78,454

The Company's customer base is diversified and no customer with whom transactions have exceeded 10% of the Company's net interest income during the years ended 31 December 2014 and 2013. Details of concentration of credit risk are set out in Note 19(a).

For the years ended 31 December 2014 and 2013, the directors have determined that the Company has only one single business component/reportable segment as the Company is principally engaged in providing lending services which is the basis to allocate resources and assess performance of the Company.

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

3 OTHER REVENUE

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Government grants	**19,821**	4,658
Investment income from trading financial assets	**164**	968
Total	**19,985**	5,626

4 IMPAIRMENT LOSSES

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Loans and advances to customers *(Note 12)*	**21,754**	2,450

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) ***Staff costs***

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Salaries, bonuses and allowance	**2,779**	1,581
Contribution to retirement scheme	**190**	72
Social insurance and other benefits	**621**	422
Total	**3,590**	2,075

The Company is required to participate in the pension scheme organized by the municipal government of Huzhou City, Zhejiang Province whereby the Company is required to pay annual contributions for PRC based employees at certain rate of the standard wages determined by the relevant authorities in the PRC during the year. The Company has no other material obligation for payment of retirement benefits to the PRC based employees beyond the annual contributions described above.

(b) ***Other items***

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Depreciation expenses *(Note 13)*	**695**	591
Operating lease charges in respect of building	**515**	550
Auditors' remuneration	**1,020**	90

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

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Current tax *(Note 17(a))*		
Provision for PRC income tax for the year	**40,227**	17,936
Deferred tax *(Note 17(b))*		
Origination and reversal of temporary differences	**(9,051)**	(582)
Total	**31,176**	17,354

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Profit before taxation	**124,575**	68,970
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned *(Note)*	**31,144**	17,242
Effect of non-deductible expenses	**32**	112
Actual income tax expense	**31,176**	17,354

Note: The Company is subject to PRC income tax at the statutory tax rate of 25%.

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Year ended 31 December 2014			
	Director's fees *RMB'000*	**Salaries, allowances and benefits in kind** *RMB'000*	**Discretionary bonuses** *RMB'000*	**Total** *RMB'000*
Chairman				
Yu Yin (俞寅)	6	212	54	272
Executive directors				
Zheng Xuegen (鄭學根)	6	120	54	180
Hu Haifeng (胡海峰)	6	175	54	235
Ding Maoguo (丁茂國) *(Appointed on 28 April 2014)*	5	100	39	144
Chu Nongying (褚農穎) *(Resigned on 18 February 2014)*	1	—	—	1
Non-executive directors				
Pan Zhongmin (潘忠敏) *(Appointed on 8 August 2014)*	3	—	—	3
Chu Nongying (褚農穎) *(Appointed on 19 February 2014 and resigned on 27 April 2014)*	1	—	—	1
Zhang Jianming (張建明) *(Resigned on 27 April 2014)*	2	—	—	2
Qiu Weiguo (丘偉國) *(Resigned on 27 April 2014)*	2	—	—	2
Tang Hairong (唐海榮) *(Resigned on 27 April 2014)*	2	—	—	2
Yu Chao (俞超) *(Resigned on 27 April 2014)*	2	—	—	2
Shen Detang (沈德堂) *(Resigned on 27 April 2014)*	2	—	—	2
Independent non-executive directors				
Ho Yuk Ming (何育明) *(Appointed on 28 April 2014)*	72	—	—	72
Jin Xuejun (金雪軍) *(Appointed on 28 April 2014)*	75	—	—	75
Huang Lianxi (黃廉熙) *(Appointed on 28 April 2014)*	75	—	—	75
Supervisors				
Dai Shengqing (戴勝慶) *(Appointed on 8 August 2014)*	2	—	—	2
Wang Peijun (王培軍) *(Appointed on 8 August 2014)*	2	—	—	2
Shen Yamin (沈婭敏)	6	65	26	97
Xia Jing (夏靜) *(Resigned on 27 April 2014)*	2	33	18	53
Fan Haimin (范海民) *(Resigned on 27 April 2014)*	2	—	—	2
Tang Hairong (唐海榮) *(Appointed on 28 April 2014 and resigned on 7 August 2014)*	2	—	—	2
Yu Chao (俞超) *(Appointed on 28 April 2014 and resigned on 7 August 2014)*	2	—	—	2
	278	705	245	1,228

	Year ended 31 December 2013			
	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	332	100	438
Executive directors				
Zheng Xuegen (鄭學根)	6	—	—	6
Hu Haifeng (胡海峰)	6	106	100	212
Chu Nongying (褚農穎)	6	36	—	42
Non-executive directors				
Zhang Jianming (張建明)	6	—	—	6
Qiu Weiguo (丘偉國)	66	—	—	66
Tang Hairong (唐海榮)	6	—	—	6
Yu Chao (俞超)	6	—	—	6
Shen Detang (沈德堂)	6	—	—	6
Supervisors				
Xia Jing (夏靜)	6	99	60	165
Shen Yamin (沈婭敏)	6	50	—	56
Fan Haimin (范海民)	6	—	—	6
	132	623	260	1,015

There were no amounts paid during the years ended 31 December 2014 and 2013 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 2014 and 2013.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three are directors or supervisor of the Company for the year ended 31 December 2013 and all five are directors or supervisor of the Company for the year ended 31 December 2014, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other two individuals for the year ended 31 December 2013 are as follows:

	Year ended 31 December 2013
	RMB'000
Salaries, allowance and benefits in kind	173
Discretionary bonuses	20
Total	193

The emoluments of the two individuals for the year ended 31 December 2013 with the highest emoluments fell within band from HKD nil up to HKD1,000,000.

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Company or as compensation for loss of office during the years ended 31 December 2014 and 2013.

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:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Profit attributable to the equity shareholders of the Company (RMB'000)	**93,399**	51,616
Weighted average number of ordinary shares in issue ('000)	**811,335**	376,688
Basic earnings per share (RMB)	**0.12**	0.14

(i) Weighted average number of ordinary shares

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Issued ordinary shares at 1 January 2013/2014	**510,000**	320,000
Effect of capital injection	**181,479**	1,041
Effect of capitalisation issue *(Note 18(c))*	**119,856**	55,647
Weighted average number of ordinary shares at 31 December	**811,335**	376,688

There were no dilutive potential ordinary shares during the years ended 31 December 2014 and 2013, and therefore, diluted earnings per share are the same as the basic earnings per share.

10 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 31 December 2014	At 31 December 2013
	RMB'000	*RMB'000*
Cash in hand	**—**	17
Cash at banks	**24,488**	81,083
Cash and cash equivalents in the cash flow statement	**24,488**	81,100

The Company's operation of micro-loan business in the PRC is conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Profit before taxation	**124,575**	68,970
Adjustment for:		
Impairment losses	**21,754**	2,450
Depreciation and amortisation	**695**	591
Interest expenses	**11,419**	12,299
Investment income	**(164)**	(968)
Changes in working capital:		
Increase in loans and advances to customers	**(613,910)**	(71,625)
Decrease/(increase) in interest receivables and other assets	**3,802**	(14,583)
Increase/(decrease) in accruals and other payables	**18,024**	616
Cash used in operations	**(433,805)**	(2,250)

11 TRADING FINANCIAL ASSETS

Trading financial assets at 31 December 2013 were wealth management products issued by a bank in the PRC, which are unlisted securities.

12 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At 31 December 2014	At 31 December 2013
	RMB'000	*RMB'000*
Enterprise loans	**699,580**	305,410
Retail loans	**455,645**	235,905
Gross loans and advances to customers	**1,155,225**	541,315
Less: Allowances for impairment losses		
— Collectively assessed	**(40,380)**	(18,696)
— Individually assessed	**(5,451)**	(5,381)
Total allowances for impairment losses	**(45,831)**	(24,077)
Net loans and advances to customers	**1,109,394**	517,238

(b) Analysed by type of collateral

	At 31 December 2014 *RMB'000*	At 31 December 2013 *RMB'000*
Unsecured loans	**450**	41,750
Guaranteed loans *(Note)*	**1,098,330**	418,460
Collateralized loans	**55,445**	78,705
Pledged loans	**1,000**	2,400
Gross loans and advances to customers	**1,155,225**	541,315
Less: Allowances for impairment losses		
— Collectively assessed	**(40,380)**	(18,696)
— Individually assessed	**(5,451)**	(5,381)
Total allowances for impairment losses	**(45,831)**	(24,077)
Net loans and advances to customers	**1,109,394**	517,238

Note: Certain loans and advances to customers are guaranteed by the Company's related parties (See Note 21(b), (c)).

(c) Analysed by industry sector

	At 31 December 2014		At 31 December 2013	
	RMB'000	**%**	*RMB'000*	%
Agriculture, forestry, animal husbandry and fishery	**195,350**	**17%**	181,200	33%
Construction	**187,000**	**16%**	28,500	5%
Wholesale and retail	**173,350**	**15%**	37,530	7%
Manufacturing	**77,030**	**7%**	42,180	8%
Others	**66,850**	**6%**	16,000	3%
Enterprise loans	**699,580**	**61%**	305,410	56%
Retail loans	**455,645**	**39%**	235,905	44%
Gross loans and advances to customers	**1,155,225**	**100.00%**	541,315	100%
Less: Allowances for impairment losses	**(45,831)**		(24,077)	
Net loans and advances to customers	**1,109,394**		517,238	

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

	At 31 December 2014				
	Overdue within 3 months (inclusive)	**Overdue more than 3 months to 6 months (inclusive)**	**Overdue more than 6 months to one year (inclusive)**	**Overdue more than one year**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Collateralized loans	**70**	**—**	**—**	**475**	**545**

	At 31 December 2013				
	Overdue within 3 months (inclusive)	Overdue more than 3 months to 6 months (inclusive)	Overdue more than 6 months to one year (inclusive)	Overdue more than one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Collateralized loans	—	600	175	—	775

Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more. All amounts are shown as gross amount of overdue loans and advances to customers before any allowances for impairment losses.

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

	At 31 December 2014		
	Loans and advances for which allowances are collectively assessed	**Loans and advances for which allowances are individually assessed**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Gross loans and advances to customers	**1,140,260**	**14,965**	**1,155,225**
Less: Allowances for impairment losses	**(40,380)**	**(5,451)**	**(45,831)**
Net loans and advances to customers	**1,099,880**	**9,514**	**1,109,394**

	At 31 December 2013		
	Loans and advances for which allowances are collectively assessed	Loans and advances for which allowances are individually assessed	Total
	RMB'000	*RMB'000*	*RMB'000*
Gross loans and advances to customers	526,240	15,075	541,315
Less: Allowances for impairment losses	(18,696)	(5,381)	(24,077)
Net loans and advances to customers	507,544	9,694	517,238

(f) Movements of allowances for impairment losses

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

	Year ended 31 December 2013		
	Provision for impairment losses which is collectively assessed	Provision for impairment losses which is individually assessed	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	13,181	8,446	21,627
Charge for the year	5,515	5,206	10,721
Reversal for the year	—	(8,271)	(8,271)
At 31 December	18,696	5,381	24,077

(g) Analysed by credit quality

	At 31 December 2014 RMB'000	At 31 December 2013 RMB'000
Gross balance of loans and advances to customers		
Neither overdue nor impaired	**1,140,260**	526,240
Impaired	**14,965**	15,075
	1,155,225	541,315
Less: Allowances for impairment losses		
Neither overdue nor impaired	**(40,380)**	(18,696)
Impaired	**(5,451)**	(5,381)
	(45,831)	(24,077)
Net balance		
Neither overdue nor impaired	**1,099,880**	507,544
Impaired	**9,514**	9,694
	1,109,394	517,238

13 FIXED ASSETS

	Office and other equipment	Motor vehicles	Electronic equipment	Leasehold improvement	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 1 January 2013	570	562	256	1,545	2,933
Additions	—	—	30	—	30
At 31 December 2013 and 1 January 2014	570	562	286	1,545	2,963
Additions	18	623	60	—	701
At 31 December 2014	588	1,185	346	1,545	3,664
Accumulated depreciation:					
At 1 January 2013	(129)	(112)	(63)	(438)	(742)
Charge for the year	(114)	(113)	(55)	(309)	(591)
At 31 December 2013 and 1 January 2014	(243)	(225)	(118)	(747)	(1,333)
Charge for the year	(117)	(206)	(63)	(309)	(695)
At 31 December 2014	(360)	(431)	(181)	(1,056)	(2,028)
Net book value:					
At 31 December 2014	228	754	165	489	1,636
At 31 December 2013	327	337	168	798	1,630

14 OTHER ASSETS

	At 31 December 2014	At 31 December 2013
	RMB'000	*RMB'000*
IPO service fees	**16,237**	—
Deferred expenses	**—**	2,986
Other receivables	**—**	9,000
Others	**685**	41
	16,922	12,027

Except for the IPO costs which will be debited to equity upon the issuance of H shares, all of the other assets were expected to be recovered or recognized as expense within one year.

15 INTEREST-BEARING BORROWINGS

	At 31 December 2014 *RMB'000*	At 31 December 2013 *RMB'000*
Bank loans *(Note (i))*		
— Guaranteed by related parties	**175,000**	160,000
Other loans *(Note (ii))*		
— Unsecured	**—**	11,000
	175,000	171,000

Notes:

(i) All of the Company's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Company was to breach the covenants, the loans would become payable on demand. The Company regularly monitors its compliance with these covenants. Further details of the Company's management of liquidity risk are set out in Note 19(b). At 31 December 2014 and 31 December 2013, none of the covenants relating to the bank loans had been breached.

(ii) Other loans bear interest at a range from 7.28% to 10.00% per annum and are unsecured.

16 ACCRUALS AND OTHER PAYABLES

	At 31 December 2014 *RMB'000*	At 31 December 2013 *RMB'000*
Conditional government grants *(Note)*	**13,000**	—
IPO service fees payable	**4,475**	—
Business tax and surcharges and other taxation payable	**1,286**	3,978
Accrued staff cost	**1,147**	463
Interest payable	**532**	340
Other payables	**1,358**	1,645
	21,798	6,426

Note: The Company received conditional government grants of RMB13.0 million from Deqing County in 2014, which is conditional on the Company's successful listing of its H Shares on the Main Board of The Stock Exchange of Hong Kong Limited by 2016 and certain requirement of tax payment in 2015 according to a special meeting minute by Deqing County Government.

17 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	At 31 December 2014	At 31 December 2013
	RMB'000	*RMB'000*
Balance of income tax payable at the beginning of the year	**9,842**	9,465
Provision for PRC income tax for the year *(Note 6(a))*	**40,227**	17,936
Income tax paid during the year	**(40,329)**	(17,559)
Balance of income tax payable at the end of the year	**9,740**	9,842

(b) Deferred tax assets recognized:

The components of deferred tax assets recognized in the statement of financial position and the movements during the years ended 31 December 2014 and 2013 are as follows:

Deferred tax assets arising from:	**Provision for impairment losses**	**Accrued expenses**	**Conditional government grants**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	5,407	142	—	5,549
Credited/(charged) to profit or loss	612	(30)	—	582
At 31 December 2013 and 1 January 2014	6,019	112	—	6,131
Credited to profit or loss *(Note 4)*	5,439	362	3,250	9,051
At 31 December 2014	11,458	474	3,250	15,182

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing of each component of the Company's equity is set out in the statement of changes in equity.

(b) Dividends

The Company declared cash dividends of RMB32.0 million during the year ended 31 December 2013, which were attributable to the years of and before 2013.

(c) Paid-in/share capital

The capital injections from equity holders of the Company are RMB190.0 million and RMB240.0 million on 30 December 2013 and 31 March 2014, respectively. Pursuant to a conversion completed on 28 April 2014, the Company was converted into a joint stock limited liability company from a limited liability company. As of 31 December 2014, the share capital represented 880,000,000 ordinary shares of the Company at RMB1 each, which were allotted and issued at par.

(d) Nature and purpose of reserves

(i) ***Capital reserve — Capital/share premium***

The capital reserve mainly comprises capital/share premium, which represents the difference between the paid-in capital/par value of the shares of the Company and capital injection/proceeds received from the issuance of the shares of the Company.

(ii) ***Surplus reserve***

The surplus reserve represents statutory surplus reserve fund. The Company is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC ("MOF"), to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

Subject to the approval of equity holders of the entities established in the PRC, statutory surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders. Subject to the approval of shareholders, discretionary surplus reserves may be used to offset previous years' losses, if any, and may be converted into capital.

(iii) ***General risk reserve***

Pursuant to relevant regulations, the Company is required to set aside a general reserve through appropriations of profit after tax according to 1.5% of the ending balance of gross risk-bearing assets to cover potential losses against these assets before 30 June 2017. As of 31 December 2014, the Company has not set aside any general reserve. The directors of the Company decided to set aside a general risk reserve in compliance with the relevant regulations in the period from 1 January 2015 to 30 June 2017.

(e) Distributable reserves

At 31 December 2013 and 31 December 2014, the aggregate amounts of reserves available for distribution to equity owners/shareholders of the Company, as calculated under the provisions of Company Law of the PRC, were RMB38.4 million and RMB70.7 million respectively.

(f) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for equity holders/shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity holders/shareholders returns that might be possible with higher levels of borrowings and the advantages and stability resulted from a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Company's approach to capital management during the years ended 31 December 2014 and 2013.

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

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest risks arises in the normal course of the Company's business. The Company's exposure to these risks and the financial risk management policies and practice used by the Company to manage these risks are described below.

(a) Credit risk

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations or commitment to the Company provided. It arises primarily from the Company's micro-finance business and treasury business such as investment in wealth management products.

Credit risk arising from micro-finance business

The Company's credit risk mainly arises from micro-finance business. The Company has established relevant mechanism to cover credit risk in key operational phases of micro-finance business, including pre-lending evaluations, credit approval, and post-lending monitoring. The Company conducts customer acceptance and due diligence by business and marketing department and risk management department in pre-lending evaluations. In the credit approval phase, all loan applications are subject to the assessment and approval of the Company's deputy general manager, general manager or loan assessment committee, depending on the amount of the loans. During the post-lending monitoring, the Company conducts on-site inspections and off-site inquiries to detect potential risks by evaluating various aspects, including but not limited to the customers' operational and financial conditions, status of collaterals and other sources of repayment.

The Company adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss of the loan portfolio is assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

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

When a certain number of clients undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Company's operating results to a particular industry or geographic location. As the Company mainly conducts micro-finance business in Deqing County, Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions.

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the reporting periods.

Other credit risk

The Company adopts a credit rating approach in managing the credit risk of the treasury business, counterparties' rating are evaluated before transactions with reference to major rating agencies generally recognized by the People's Bank of China.

In respect of interest receivables and other assets, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluation focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Company does not obtain collateral from customers.

(b) Liquidity risk

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

The following tables provide an analysis of the remaining contractual maturities, which are based on contractual undiscounted cash flows (including interest payments, computed using contractual rates) of the financial assets and liabilities of the Company at the end of the reporting periods:

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

	At 31 December 2013					
	Overdue/ Repayment on demand	Within three months	Between three months and one year	Between one year and five years	Total	Balance sheet book value
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets						
Cash and cash equivalents	81,100	—	—	—	81,100	81,100
Trading financial assets	150,000	—	—	—	150,000	150,000
Interest receivables	8,622	—	—	—	8,622	8,622
Loans and advances to customers	775	90,694	500,639	111	592,219	517,238
Other assets	41	—	9,000	—	9,041	9,041
Total	240,538	90,694	509,639	111	840,982	766,001
Liabilities						
Interest-bearing borrowings	—	(12,803)	(166,291)	—	(179,094)	(171,000)
Accruals and other payables	(1,985)	—	—	—	(1,985)	(1,985)
Total	(1,985)	(12,803)	(166,291)	—	(181,079)	(172,985)
	238,553	77,891	343,348	111	659,903	593,016

(c) Interest risk

The Company is principally engaged in the provision of micro-finance services. Its interest rate risk arises primarily from deposits with banks, loans and advances to customers and interest-bearing borrowings.

(i) *Interest rate profile*

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

	At 31 December 2014	At 31 December 2013
	RMB'000	*RMB'000*
Fixed interest rate		
Financial assets		
— Cash and cash equivalent	**—**	—
— Loans and advances to customers	**1,109,394**	517,238
	1,109,394	517,238
Financial liabilities		
— Interest-bearing borrowings	**(175,000)**	(171,000)
	(175,000)	(171,000)
Net	**934,394**	346,238
Variable interest rate		
Financial assets		
— Cash at banks	**24,488**	81,083
Net	**24,488**	81,083
Net fixed rate borrowings as a percentage of total borrowings	**100.00%**	100.00%

(ii) *Sensitivity analysis*

At 31 December 2014 and 31 December 2013, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Company's net profit during the year by approximately RMB92,000 and RMB304,000 respectively.

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

(d) Fair value

(i) *Financial assets and liabilities measured at fair value*

Fair value hierarchy

The following table presents the fair value of the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations:	Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
Level 2 valuations:	Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
Level 3 valuations:	Fair value measured using significant unobservable inputs.

The Company has a team headed by the finance manager performing valuations for wealth management products, which are categorized into Level 3 of the fair value hierarchy. The Company determines the fair values of wealth management products by discounted cash flow or other valuation methods. The team reports directly to the Chief Financial Officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the Chief Financial Officer. Discussion of the valuation process and results with the Chief Financial Officer and the directors is held twice a year, to coincide with the reporting dates.

	At 31 December 2014 ***RMB'000***	At 31 December 2013 *RMB'000*
Level 3	**—**	150,000

During the period, there were no transfers between instruments in Level 1 and Level 2. The movement during the period in the balance of Level 3 fair value measurements is as follows:

	At 31 December 2014 ***RMB'000***	At 31 December 2013 *RMB'000*
At the beginning of the year	**150,000**	—
Payment for purchases	**520,470**	2,062,610
Proceeds from sales	**(670,470)**	(1,912,610)
At the end of the year	**—**	150,000

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

The carrying amounts of the Company's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2013 and 31 December 2014.

20 COMMITMENTS

At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	At 31 December 2014 *RMB'000*	At 31 December 2013 *RMB'000*
Within 1 year	**515**	—
After 1 year but within 5 years	**515**	—
Total	**1,030**	—

The Company is the lessee in respect of a certain properties held under operating leases. The leases typically run for an initial period of 1–3 years, at the end of which period all terms are renegotiated. None of the leases include contingent rentals.

21 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Key management personnel		
Remuneration *(Note (i))*	**1,566**	1,015
Operating lease charges *(Note (ii))*	**515**	550
Receiving guarantees for loans and advances to customers	**—**	30,100
Releasing guarantees for loans and advances to customers	**(4,300)**	(30,200)

Notes:

(i) Remuneration for key management personnel includes amounts paid to certain directors of the Company as disclosed in Note 7 and the highest paid employees as disclosed in Note 8.

(ii) Operating lease charges are paid to the Chairman of the Company for the lease in respect of the Company's office. The lease was carried out on normal commercial terms.

(b) Balances with key management personnel

	At 31 December 2014 *RMB'000*	At 31 December 2013 *RMB'000*
Other assets	**350**	—
Guarantees received for loans and advances to customers	**—**	4,300

(c) Other related party transactions

	Year ended 31 December **2014** *RMB'000*	2013 *RMB'000*
Interest income	**1**	122
License fees	**—**	100
Additions of loans and advances to customers	**1,000**	900
Repayment of loans and advances to customers	**(1,000)**	(1,800)
Receiving guarantees for bank loans	**245,000**	200,000
Releasing guarantees for bank loans	**(230,000)**	(160,000)
Receiving guarantees for loans and advances to customers	**3,900**	26,250
Releasing guarantees for loans and advances to customers	**(6,100)**	(25,000)

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

(d) Balances with other related parties

	At 31 December 2014 *RMB'000*	At 31 December 2013 *RMB'000*
Guarantees received for bank loans *(Note (i))*	**175,000**	160,000
Guarantees received for loans and advances to customers *(Note (ii))*	**—**	2,200

Notes:

(i) The guarantees were provided by the related parties of the Company with no charges, and were expired on 13 January 2015.

(ii) The guarantees were provided by the related parties of the Company for repayment of the loans borrowed by some of the customers, which are not related parties to the Company. These guarantees expire on the same dates of the maturing dates of the related loans from the customers.

22 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) Impairment of receivables and loans and advances

The Company reviews portfolios of receivables and loans and advances periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for receivables and loans and advances. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for receivables and loans and advances that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

As described in Note 1(f), receivables stated at amortized cost are reviewed at the end of each reporting period to assess whether impairment losses exist. The Company makes judgements as to whether there is any objective evidence that a receivables are impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for receivables. It also includes observable data indicating adverse changes in the repayment status of the debtors. If, in a subsequent period, the amount of the impairment losses on receivables decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in accordance with accounting policy for impairment of long-lived assets as described in Note 1(i). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Company uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(c) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account estimated residual value. The useful lives and residual value are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation, the rate of depreciation is revised.

(d) Tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Company carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

23 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2014 and which have not been adopted in the financial statements.

	Effective for accounting periods beginning on or after
Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contribution*	1 July 2014
Annual Improvements to HKFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to HKFRSs 2011–2013 Cycle	1 July 2014
HKFRS 14, *Regulatory deferral accounts*	1 January 2016
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
Annual Improvements to HKFRSs 2012–2014 Cycle	1 January 2016
HKFRS 15, *Revenue from contracts from customers*	1 January 2017
HKFRS 9, *Financial Instruments (2014)*	1 January 2018
Amendments to HKFRS 9, *Financial instruments and HKFRS 7, Financial instruments: Disclosures — Mandatory effective date and transition disclosures*	1 January 2018

The Company is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

24 SUBSEQUENT EVENTS

The shares of the Company were listed on Stock Exchange of Hong Kong Limited on 13 January 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

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

Competition within the microfinance industry in Zhejiang is increasingly intense. As of 31 December 2014, the number of microfinance companies in Zhejiang reached 344. The average registered capital per microfinance company increased from approximately RMB137 million in 2009 to approximately RMB207 million in 2014. The average loan balance per microfinance company increased from RMB137.1 million as of 31 December 2009 to RMB264.87 million as of 31 December 2014.

The microfinance industry in Deqing has also seen rapid growth in the past five years. As of 31 December 2014, there were five microfinance companies in Deqing. The loan balance of microfinance companies in Deqing increased significantly from approximately RMB316 million as of 31 December 2009 to approximately RMB2,694 million as of 31 December 2014. Annual aggregate loans also increased significantly from RMB1,621 million for the year ended 31 December 2010 to RMB6,314 million for the year ended 31 December 2014, almost quadrupling over the last four years. The average overdue ratio of all microfinance companies in Deqing was 0.4% and 0.54% as of 31 December 2013 and 31 December 2014, respectively.

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

Business Overview

As of 31 December 2014, 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 serving customers in Deqing, a county in Huzhou, Zhejiang with robust commercial and agricultural activities, by providing financing solutions with flexible terms through quick and comprehensive loan assessment and approval processes.

Our key customers primarily consist of customers engaged in agricultural businesses, customers engaged in rural development activities, and/or customers residing in rural areas ("AFR (三農)"), and small and medium enterprises ("SMEs") and microenterprises in various industries.

Due to the increase in our capital base and strong demand for financing by our customers, our gross outstanding loans increased substantially from RMB541.3 million as of 31 December 2013 to RMB1,155.2 million as of 31 December 2014. The following table sets forth our registered capital, gross outstanding loans and advances to customers, and leverage ratio as of the dates indicated:

	As of 31 December	
	2014	2013
Registered capital (RMB in thousands)	**880,000**	510,000
Gross outstanding loans and advances to customers (RMB in thousands)	**1,155,225**	541,315
Leverage ratio[1]	**1.31**	1.06

Note:

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

For the years ended 31 December 2013 and 2014, our average interest rate for loans was 17.2% and 15.6%, respectively. The decline in our average interest rate during the aforesaid period was primarily: (i) in line with the market trend of the average interest rate charged by microfinance companies in Deqing, decreasing from 18.9% in 2012 to 16.8% in 2013 and further to 15.5% in 2014; (ii) due to an increase in loans of an amount over RMB5 million granted by us during the aforesaid period, of which we charged a relatively lower interest rate compared to our other loans ranging from RMB500,000 to RMB5 million, on the basis that such customers are relatively more established and financially stronger; and (iii) as a result of focusing more on serving customers with stronger repayment ability in 2014, of which we charged a lower interest rate, after an increase in overdue loan ratio to 2.3% in 2012.

We primarily served SMEs, microenterprises and individuals in the agricultural, industrial and service sectors in Deqing. For the years ended 31 December 2013 and 2014, we served over 450 and 460 customers, respectively.

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

	As of 31 December	
	2014	2013
Up to RMB500,000.	**289**	254
Over RMB500,000 to RMB1 million (inclusive)	**151**	288
Over RMB1 million to RMB5 million (inclusive)	**291**	150
Over RMB5 million	**117**	62
Total gross outstanding loans and advances to customers	**848**	**754**

For the years ended 31 December 2013 and 2014, 71.9% and 51.9% of our loan contracts were of loan size up to RMB1.0 million, respectively.

For the years ended 31 December 2013 and 2014, the total amount of loans we granted was RMB1,386.6 million and RMB2,388.8 million, respectively.

Loan Portfolio by Security

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

	As of 31 December			
	2014		2013	
	RMB'000	*%*	*RMB'000*	*%*
Unsecured loans[1]	**450**	**0.0**	41,750	7.7
Guaranteed loans	**1,098,330**	**95.1**	418,460	77.3
Collateralized loans	**55,445**	**4.8**	78,705	14.5
Pledged loans	**1,000**	**0.1**	2,400	0.5
Total gross outstanding loans and advances to customers	**1,155,225**	**100.0**	**541,315**	**100.0**

Note:

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

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

	As of 31 December			
	2014		2013	
	RMB'000	*%*	*RMB'000*	*%*
Due within three months	**29,970**	**2.6**	18,210	3.4
Due between three months and six months	**208,250**	**18.0**	57,300	10.6
Due between six months and one year	**915,135**	**79.2**	465,705	86.0
Due more than one year[(1)]	**1,870**	**0.2**	100	0.0
Total gross outstanding loans and advances to customers	**1,155,225**	**100.0**	**541,315**	**100.0**

Note:

(1) As of 31 December 2014, the majority of the loans we granted to our customers with a term more than one year were loans whereby their repayment terms were extended.

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

	As of 31 December			
	2014		2013	
	RMB'000	*%*	*RMB'000*	*%*
Up to RMB500,000	**45,445**	**3.9**	18,415	3.4
Over RMB500,000 to RMB1 million (inclusive)	**76,580**	**6.7**	120,950	22.4
Over RMB1 million to RMB5 million (inclusive)	**363,200**	**31.4**	122,850	22.7
Over RMB5 million	**670,000**	**58.0**	279,100	51.5
Total gross outstanding loans and advances to customers	**1,155,225**	**100.0**	**541,315**	**100.0**

Note:

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

We adopt a loan classification approach to manage our credit risk on loan portfolio. We categorize our loans by reference to the "Five-Tier Principle" set forth in the *Guidance on Provisioning for Loan Losses* (銀行貸款損失準備計提指引) issued by the People's Bank of China on 2 April 2002.

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

	As of 31 December			
	2014		2013	
	RMB'000	*%*	*RMB'000*	*%*
Normal	**961,260**	**83.2**	439,940	81.3
Special mention	**179,000**	**15.5**	86,300	15.9
Substandard	**14,420**	**1.2**	14,300	2.6
Doubtful	**370**	**0.1**	600	0.1
Loss	**175**	**0.0**	175	0.1
Total gross outstanding loans and advances to customers	**1,155,225**	**100.0**	**541,315**	**100.0**

For "normal" and "special mention" loans, given that they are neither past due nor impaired, we make collective assessment based primarily on factors including prevailing general market and industry conditions and historical impaired ratio. For "substandard", "doubtful" and "loss" loans, the impairment losses are assessed individually as appropriate by an evaluation of the loss expected to be incurred on the balance sheet date.

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

	As of or for the year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Impaired loan ratio(1)	**1.3%**	2.8%
Balance of impaired loans	**14,965**	15,075
Gross outstanding loans and advances to customers.	**1,155,225**	541,315
Provision coverage ratio(2)	**306.3%**	159.7%
Allowances for impairment losses(3)	**45,831**	24,077
Balance of impaired loans	**14,965**	15,075
Provision for impairment losses ratio(4)	**4.0%**	4.4%
Balance of overdue loans	**545**	775
Gross outstanding loans and advances to customers	**1,155,225**	541,315
Overdue loan ratio(5)	**0.05%**	0.1%

Notes:

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

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

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

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

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

Our impaired loans decreased slightly from RMB15.1 million as of 31 December 2013 to RMB15.0 million as of 31 December 2014, mainly because we continued to focus more on serving customers with stronger repayment ability in 2014, of which we charged a lower interest rate and there was relatively low level of overdue amount of RMB0.5 million as of 31 December 2014. As a result of the decreasing balance of our impaired loans as of 31 December 2014, our provision coverage ratio, which indicates the level of provisions we set aside to cover probable loss in our loan portfolio, increased from 159.7% of 31 December 2013 to 306.3% as of 31 December 2014.

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

	As of or for the year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Unsecured loans	**0.0**	0.0
Guaranteed loans	**0.0**	0.0
Collateralized loans	**545**	775
Pledged loans	**0.0**	0.0
Total overdue loans	**545**	**775**

We had overdue loans of RMB0.8 million and RMB0.5 million as of 31 December 2013 and 2014, respectively, accounting for 0.1% and 0.05% of our gross outstanding loans as of the same dates. RMB300,000 of the overdue loans of RMB775,000 as of 31 December 2013 was recovered in March 2014. RMB70,000 of the overdue loans of RMB545,000 as of 31 December 2014 was recovered in January 2015.

Financial Overview

Net interest income

We generate interest income from loans we provide to customers and from our cash at banks. Our net interest income is net of interest and commission expenses. We incur interest expenses on bank and other borrowings to principally expand our business and meet working capital requirements, as well as bank charges.

The following table sets forth the breakdown of our net interest income by source for the years indicated:

	2014	2013
	RMB'000	*RMB'000*
Interest income from		
Loans and advances to customers	**159,954**	90,697
Cash at banks	**283**	92
Total interest income	**160,237**	90,789
Interest and commission expenses from		
Borrowings from banks	**(11,320)**	(12,174)
Borrowings from nonbank institutions	**(99)**	(125)
Bank charges	**(45)**	(36)
Total interest and commission expenses	**(11,464)**	(12,335)
Net interest income	**148,773**	78,454

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rate that we charge on loans to our customers. Our balance of outstanding loans increased during the reporting period, generally in line with the size of our capital base, which in turn is affected by the size of our registered capital and bank borrowings. Our gross outstanding loans amounted to RMB541.3 million and RMB1,155.2 million as of 31 December 2013 and 2014, respectively, and our average interest rate for loans was 17.2% and 15.6% for the years ended 31 December 2013 and 2014, respectively. The decline in our average interest rate during the reporting period was primarily: (i) in line with the market trend of the average interest rate charged by microfinance companies in Deqing, decreasing from 16.8% in 2013 to 15.5% in 2014; (ii) due to, in line with our enlarged capital base, the increased percentage of loans of an amount over RMB5 million granted during the reporting period, of which we charged a relatively lower interest rate compared to our other loans ranging from RMB500,000 to RMB5 million, given that such customers are relatively more established and financially stronger; and (iii) as a result of focusing more on serving customers with stronger repayment ability in 2014, of which we charged a lower interest rate, after an increase in overdue loan ratio to 2.3% in 2012.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions, as well as bank charges, were RMB12.3 million and RMB11.5 million for the years ended 31 December 2013 and 31 December 2014, respectively. We incur interest expenses primarily on bank borrowings and the interest rate charged on our bank borrowings. Such borrowings were principally used to expand our loan business. The movement in our interest expenses mainly reflected the level of our bank borrowings. Our interest-bearing borrowings amounted to RMB171.0 million and RMB175.0 million as of 31 December 2013 and 31 December 2014, respectively. In 2014, our bank borrowings bore interest rates ranging from 6.9% to 7.8% on an annual basis. In addition to bank borrowings, we also had other borrowings of RMB11.0 million from the fund pool managed by Microfinance Union of Huzhou City as of 31 December 2013, which bore interest rates ranging from 7.3% to 10.0% on an annual basis and were unsecured. The total bank charges were RMB36,445 and RMB44,508 in 2013 and 2014, respectively.

Our net interest income for the year ended 31 December 2013 and as of 31 December 2014 was RMB78.5 million and RMB148.8 million, respectively.

Other revenue

Our other revenue for the years ended 31 December 2013 and 31 December 2014 was RMB5.6 million and RMB20.0 million, respectively. Our other revenue consists of government grants and investment returns from principal guaranteed wealth management products which we hold for a short period of time, usually less than a week. For 2013 and 2014, we received government grants of RMB4.7 million and RMB19.8 million, respectively. The government subsidies in relation to EIT and business tax granted by government are usually paid to us in the second half of the next year.

In 2013 and 2014, we had investment returns of RMB1.0 million and RMB0.2 million, respectively.

Impairment losses

Impairment losses include provisions we make in relation to loans and advances to our customers. We review our portfolios of loans and advances periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Our management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

In 2013 and 2014, our impairment losses were RMB2.5 million and RMB21.8 million, respectively.

Administrative expenses

Our administrative expenses mainly include: (i) business tax and surcharge; (ii) staff costs, such as salaries, bonuses and allowances paid to employees, social insurance and other benefits; (iii) office expenditure and travel expenses; (iv) operating lease charges; (v) depreciation and amortization expenses; (vi) consulting and professional service fees; and (vii) other expenses including business service charge, business development expenses, advertising expenses and miscellaneous expenses, such as stamp duty, training fees and labor protection fees. The table below sets forth the components of our administrative expenses by nature for the years indicated (RMB'000):

	2014	2013
Business tax and surcharge	**8,967**	5,133
Staff costs	**3,590**	2,075
Office expenditure and travel expenses	**2,625**	933
Operating lease charges	**515**	550
Depreciation and amortization expenses	**695**	591
Consulting and professional service fees	**2,250**	1,159
Business development expenses	**269**	350
Advertising expenses	**2,186**	158
Others	**1,332**	1,711
Total administrative expenses	**22,429**	12,660

Our business tax and surcharge mainly include: (i) business tax; (ii) city construction and maintenance tax; and (iii) education surcharge. For the years ended 31 December 2013 and 2014, our business tax and surcharge were RMB5.1 million and RMB9.0 million, respectively, accounting for 40.5% and 40.0% of our total administrative expenses, respectively. Our business tax was RMB4.6 million and RMB8.0 million in 2013 and 2014, respectively, accounting for 89.3% and 89.3% of our total business tax and surcharge, respectively.

Our staff costs accounted for 16.4% and 16.0% of total administrative expenses for the years ended 31 December 2013 and 2014, respectively. In addition to base salary, since 2012, we also offered performance-based bonus to incentivize our customer relationship managers. For the years ended 31 December 2013 and 2014, we paid RMB0.2 million and RMB0.1 million, respectively, to our employees as performance-based bonus, accounting for 0.2% and 0.06% of our interest income during the same period.

Compared to 2013, we incurred more advertising expense in 2014 in order to increase our brand recognition. Our administrative expenses for the years ended 31 December 2013 and 2014 were RMB12.7 million and RMB22.4 million, respectively.

Income tax

Our income tax for the years ended 31 December 2013 and 2014 was RMB17.4 million and RMB31.2 million, respectively, and our effective tax rate was 25.2% and 25.0%, respectively.

Profit for the year

As a result of the foregoing, we had profit for the year of RMB51.6 million and RMB93.4 million in 2013 and 2014, respectively.

Liquidity and Capital Resources

The H shares of the Company (the "**H Shares**") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 January 2015 (the "**Listing**") with net proceeds from the offering of the Company of approximately HK$338.4 million (after deducting underwriting fees and related expenses).

We have in the past funded our working capital and other capital requirements primarily by equity contributions from shareholders of the Company (the "**Shareholders**"), bank borrowings and cash flows from operations. Our liquidity and capital requirements primarily relate to extending loans and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than normal bank borrowings we obtain from commercial banks and potential debt financing plans, such as asset securitization, we do not expect to have any material external debt financing plan in the near future.

Working Capital Management

Cash flows

The following table sets forth a selected summary of our cash flow statement for the years indicated: (RMB'000)

	2014	2013
Cash and cash equivalents at beginning of year	**81,100**	19,612
Net cash used in operating activities	**(474,134)**	(19,809)
Net cash (used in)/generated from investing activities	**149,463**	(149,062)
Net cash generated from financing activities	**268,059**	230,359
Net increase/(decrease) in cash and cash equivalents	**(56,612)**	61,488
Cash and cash equivalents at end of year	**24,488**	81,100

Net cash used in operating activities

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

As we recorded equity contributions from shareholders and bank borrowings as cash generated from financing activities, we classified the deployment of such cash in granting new loans to customers as cash used in operating activities and, as a result, we typically reported net cash used in operating activities. Due to the lending-based nature of our business and the accounting treatment that such deployment of cash is accounted for as operating cash outflow, we typically experience net cash outflows from operating activities when we expand our loan business as a result of such accounting treatment, which is generally in line with the industry norm.

Net cash used in operating activities in 2014 was RMB474.1 million. Our net cash flows from operating activities reflect: (i) our profit before tax of RMB124.6 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB21.8 million and interest expenses of RMB11.4 million; (ii) the effect of changes in working capital, primarily including an increase in loans and advances to customers of RMB613.9 million, due to our enlarged business scale mainly because of our capital injections in December 2013 and March 2014, and an increase in accruals and other payables of RMB18.0 million, mainly as a result of the government grants of RMB13.0 million we recorded during the first half of 2014; and (iii) income tax paid of RMB40.3 million.

Net cash (used in)/generated from investing activities

For the year ended 31 December 2014, our net cash generated from investing activities was RMB149.5 million. Our net cash inflows for investing activities mainly consisted of proceeds from disposal of principal guaranteed wealth management products of RMB670.6 million, partially offset by our payments for such investment products of RMB520.5 million.

Net cash generated from financing activities

Our cash generated from financing activities consisted primarily of proceeds from equity contributions and new borrowings. Our cash used in financing activities consists of: (i) repayment of borrowings; (ii) interests paid; and (iii) dividend payments.

For the year ended 31 December 2014, our net cash generated from financing activities was RMB268.1 million. Our net cash flows from financing activities consisted of equity contributions of RMB288.0 million and new borrowings of RMB245.0 million, which was offset by: (i) repayments of borrowings of RMB241.0 million; (ii) cash paid for other financing activities of RMB12.8 million, which was professional fees in relation to the Listing; (iii) interests paid of RMB8.3 million; and (iv) dividend paid of RMB2.8 million.

Cash management

As our business relies primarily on its available cash, we normally set aside a sufficient amount of cash for general working capital needs, such as administrative expenses and payment of interests on bank borrowings, and use substantially all of the remainder for granting loans to our customers. As of 31 December 2013 and 2014, the total cash and cash equivalents amounted to RMB81.1 million and RMB24.5 million, respectively, which we consider to be adequate based on our actual working capital needs.

Selected items of the statement of financial position

The following table sets forth a summary of our assets and liabilities as of the dates indicated (RMB'000):

	As of 31 December	
	2014	2013
Assets		
Cash and cash equivalents	**24,488**	81,100
Trading financial assets	**—**	150,000
Interest receivables	**9,795**	8,622
Loans and advances to customers	**1,109,394**	517,238
Fixed assets	**1,636**	1,630
Deferred tax assets	**15,182**	6,131
Other assets	**16,922**	12,027
Total assets	**1,177,417**	776,748
Liabilities		
Interest-bearing borrowings	**175,000**	171,000
Accruals and other payables	**21,798**	6,426
Current tax liabilities	**9,740**	9,842
Total liabilities	**206,538**	187,268
Net assets	**970,879**	589,480

Cash and cash equivalents

Cash and cash equivalents primarily consist of our cash in hand and cash at banks. The following table sets forth our cash and cash equivalents as of the dates indicated (RMB'000):

	As of 31 December	
	2014	2013
Cash in hand	**—**	17
Cash at banks	**24,488**	81,083
Cash and cash equivalents	**24,488**	81,100

The decrease in our cash and cash equivalents from RMB81.1 million as of 31 December 2013 to RMB24.5 million as of 31 December 2014 was primarily because we have used a majority of the equity contributions in both December 2013 and March 2014 to grant loans to customers.

Trading financial assets

Pursuant to our treasury and investment policies, we may conduct investment activities including purchase of wealth management products, venture investments and securities investments. Such investment activities require prior approval by the Board or Shareholders' meeting and are subject to internal reporting and monitoring procedures. For short-term investment products, such as securities, bonds and investment funds, we conduct comprehensive review on such products at the end of their respective terms. In addition, we estimate the potential losses and make provisions for losses where we deem appropriate. In order to better flexibly utilize our surplus cash in hand, we took into consideration the level of our outstanding loans and loan repayments, market conditions, business development plans and relevant transaction costs, and when we think appropriate, purchased principal guaranteed wealth management products offered by commercial banks, which we hold for a relatively short period of time, usually less than a week, from which we recorded investment returns. We had trading financial assets of RMB150.0 million as of 31 December 2013, which we purchased on 31 December 2013 and subsequently held until January 2014. We did not have such financial assets as of 31 December 2014.

Interest receivables

Our interest receivables increased from RMB 8.6 million as of 31 December 2013 to RMB 9.8 million as of 31 December 2014. The increase in our interest receivables was mainly in line with the increase in our outstanding loans, primarily as a result of our enlarged business scale and capital base.

Loans and advances to customers

Our loans and advances to customers reflect the total balance of our loan portfolio. The following table sets forth our gross loans and advances to customers by customer type as of the dates indicated (RMB'000):

	As of 31 December	
	2014	2013
Loans to enterprises[1]	**699,580**	305,410
Loans to individuals	**455,645**	235,905
Total gross loans and advances to customers	**1,155,225**	541,315
Allowances for impairment losses		
— collective	**(40,380)**	(18,696)
— individual	**(5,451)**	(5,381)
Total allowances for impairment losses	**(45,831)**	(24,077)
Net loans and advances to customers	**1,109,394**	517,238

Note:

(1) Include loans to sole proprietors.

As of 31 December 2014, our net loans and advances to customers amounted to RMB1,109.4 million mainly because of our capital injections in December 2013 and March 2014, which we used to grant loans to customers.

We focus on providing short-term loans to minimize our risk exposure and, as a result, a substantial majority of our loans and advances to customers have a term of less than one year. The following table sets forth a maturity profile of the original term of our gross loans and advances to customers as of the dates indicated (RMB'000):

	As of 31 December	
	2014	2013
Due within three months	**29,970**	18,210
Due between three months and six months	**208,250**	57,300
Due between six months and one year	**915,135**	464,005
Due more than one year	**1,870**	1,800
Total gross loans and advances to customers	**1,155,225**	541,315

We had overdue loans of RMB0.8 million and RMB0.5 million as of 31 December 2013 and 2014, respectively, accounting for 0.1% and 0.05% of our total gross loans and advances to customers as at the same dates.

The following table sets forth our loan portfolio by security as of the dates indicated (RMB'000):

	As of 31 December	
	2014	2013
Unsecured loans[1]	**450**	41,750
Guaranteed loans	**1,098,330**	418,460
Collateralized loans	**55,445**	78,705
Pledged loans	**1,000**	2,400
Total gross loans and advances to customers	**1,155,225**	541,315

Note:

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

The majority of our loans were guaranteed loans during the years ended 31 December 2013 and 2014. Our guaranteed loans accounted for 77.3% and 95.1% of our total gross loans and advances to customers as of 31 December 2013 and 2014, respectively.

Other assets

Our other assets primarily consist of listing service fees as of 31 December 2014. The following table sets forth a breakdown of our other assets as of the dates indicated (RMB'000):

	As of 31 December	
	2014	2013
Other receivables[1]	**—**	9,000
Deferred expenses[2]	**—**	2,986
Listing service fees	**16,237**	—
Others	**685**	41
Total other assets	**16,922**	12,027

Notes:

(1) Represent our deposit to a fund pool managed by Microfinance Union of Huzhou City.

(2) Mainly consist of interest prepayments to Bank of China, Deqing Branch.

As of 31 December 2013 and 2014, our other assets were RMB12.0 million and RMB16.9 million, respectively. As of 31 December 2014, we also incurred service fees in relation to the Listing of RMB16.2 million, all of which have been charged to equity upon the Listing.

Accruals and other payables

The following table sets forth a breakdown of our accruals and other payables by nature as of the dates indicated (RMB'000):

	As of 31 December	
	2014	2013
Business tax, surcharges and other tax payables	**1,286**	3,978
Accrued staff cost	**1,147**	463
Interest payables	**532**	340
Consulting fee payables	**—**	1,053
Conditional government grants	**13,000**	—
Listing service fee payables	**4,475**	—
Others	**1,358**	592
Total accruals and other payables	**21,798**	6,426

Note:

(1) Includes payables of business service charge and other accruals.

Our accruals and other payables mainly include: (i) business tax, surcharges and other tax payables; (ii) payables of consulting fees; (iii) conditional government grants; and (iv) payables of Listing service fees. Our accruals and other payables as of 31 December 2014 substantially increased to RMB21.8 million primarily because of payables of listing fees of RMB4.5 million and conditional government grants of RMB13.0 million in relation to the Listing, partly offset by a decrease in tax payables of RMB2.7 million to RMB1.3 million as of 31 December 2014.

Current tax liabilities

Our current tax liabilities, which represent payables of our income tax, were RMB9.8 million and RMB9.7 million, respectively, as of 31 December 2013 and 2014.

Capital commitments

We did not have any capital commitment as of 31 December 2014.

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

	As of 31 December	
	2014	2013
Return on weighted average equity	**11.0%**	13.8%
Return on average assets[(1)]	**9.6%**	8.2%

Notes:

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

	As of 31 December	
	2014	2013
Gearing ratio[(1)]	**15.5%**	15.3%

Note:

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

Our return on weighted average equity decreased from 13.8% in 2013 to 11.0% in 2014 primarily due to the increase in our capital base as a result of capital contributions received in December 2013 and March 2014. Our return on average assets increased in 2014 mainly attributable to the continued growth of our business and profit.

Capital expenditures

Our capital expenditures consist primarily of expenditures for the purchase of equipment and vehicles. The following table sets forth our capital expenditures as of the dates indicated (RMB'000):

	As of 31 December	
	2014	2013
Capital expenditures	**701**	30

We incurred capital expenditures of RMB0.6 million for the year ended 31 December 2014 mostly on vehicles.

Related party transactions

During the year ended 31 December 2014, we leased a property from Mr. Yu Yin, an executive Director and the chairman of the Board. For the years ended 31 December 2013 and 2014, the rental payment was approximately RMB0.6 million and RMB0.5 million, respectively.

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

During the reporting period, certain of our related parties obtained loans from us and/or provided guarantees for loans we granted to third parties. As of 31 December 2014, all of such loans to our related parties had been repaid and all of such guarantees by our related parties had been released. For the years ended 31 December 2013 and 2014, the interest income we received from such related party transactions amounted to RMB121,693 and RMB867, respectively, which was minimal to our interest income during the same period. Our Directors confirm that these loans were carried out on normal commercial terms.

Certain of our Shareholders and Directors, including Deqing Puhua Energy Company Limited* (德清普華能源有限公司) and Zuoli Holdings Group Company Limited* (佐力控股集團有限公司), had guaranteed some of our bank borrowings and our loans to customers, and such bank borrowings amounted to RMB160.0 million and RMB175.0 million as of 31 December 2013 and 2014, respectively. We have obtained a confirmation dated 8 August 2014 from Bank of China, Deqing Branch confirming that, upon Listing, such guarantees will be irrevocably automatically released and the underlying loan agreements will remain effective.

Indebtedness

Borrowings

The following table sets forth our outstanding borrowings as of the dates indicated (RMB'000):

	As of 31 December	
	2014	2013
Bank borrowings	**175,000**	160,000
Other borrowings	**—**	11,000
Total borrowings	**175,000**	171,000

The steady increase in our bank borrowings from 2013 to 2014 was a result of our business expansion.

Off-balance Sheet Arrangements

As of 31 December 2014, we did not have any off-balance sheet arrangements.

Employment and Emoluments

As of 31 December 2014, the Company had approximately 29 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

Prospects

With the establishment of China Microfinance Companies Association (中國小額貸款公司協會) in January 2015, the financing intermediary role played by microfinance companies in the PRC is increasingly being recognized by the relevant authorities and the microfinance industry as a whole is expected to benefit from the regulatory point of view. In terms of our market, Deqing was placed among the nation's top 100 counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). A number of high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which has helped to cultivate the local financial services sector. In addition, Deqing has been designated as a "technological outstanding county (科技強縣)" as well as a "financial innovation demonstration county (金融創新示範縣)" by the Zhejiang provincial government. As such, we expect Deqing to continue experience stable economic growth and provide us with a relatively conducive market environment for us to grow our market share as we continue to introduce innovative loan and related products, enhance our market penetration and increase our competitive advantages by utilizing our enlarged capital base.

The successful Listing enlarges the capital scale of the Company and we intend to expand the business in Deqing county continuously while further increasing the market penetration rate of AFR (三農) customers through expanding the marketing channel.

At the same time, we plan to extend the geographical coverage of our businesses and we plan to expand the geographical coverage of our businesses in accordance with the policies and through setting up branches in Deqing county, providing services to customers outside Deqing and carried out strategic acquisitions of other mirco-finance companies or financial institutions. Subject to regulatory approval, we intend to operate loan business in other regions of Huzhou city and foray into other major cities in Zhejiang, such as Hangzhou and Jiaxing, in the next three to five years.

In addition, we plan to innovate our loan business model and subject to the approval by the competent government departments, we also intend to further utilise the internet platform to improve the competitiveness of our business model.

Use of Proceeds

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

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

CORPORATE GOVERNANCE

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

The Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provisions**") of the Corporate Governance Code ("**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). As the H Shares were not yet listed on the Stock Exchange until 13 January 2015, the Code Provisions were not applicable to the Company in the period under review. Throughout the period since the Listing Date, the Company has fully complied with the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

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 of the Company (the "**Directors**"). After specific enquiry with all members of the Board, they have confirmed fully compliance with the relevant standards stipulated in the Model Code since the Listing Date.

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

The H Shares of the Company were listed on the Stock Exchange on 13 January 2015. The Company has not purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2014.

DIVIDENDS

The Company was successfully listed on the Stock Exchange on 13 January 2015. The Board does not recommend the payment of a final dividend for the year ended 31 December 2014.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain shareholder's entitlement to attend and vote at the forthcoming annual general meeting of the Company (the "**AGM**"), the H share register of members of the Company will be closed from Tuesday, 28 April to Thursday, 28 May, both days inclusive, during which period no share transfers will be registered. In order to qualify for attending and voting at the forthcoming AGM, holders of H Shares of the Company shall lodge transfer documents with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 27 April.

CHANGES OF INFORMATION OF DIRECTORS AND SUPERVISORS

The Directors and Supervisors confirmed that there is no information which is discloseable pursuant to the requirements under Rule 13.51B of the Listing Rules.

INTEREST OF DIRECTORS AND SUPERVISORS IN A COMPETING BUSINESS

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

EVENTS AFTER THE REPORTING PERIOD

(i) The Listing

On 13 January 2015, the H Shares of the Company were listed on the Main Board of the Stock Exchange, pursuant to which 300,000,000 new shares of HK$1.30 each were issued by the Company.

AGM

The AGM of the Company will be held at Deqing Hall, 5th Floor, Moganshan Hotel*, Deqing County, Zhejiang Province, the PRC on Thursday, 28 May 2015. Notice of the AGM will be issued and disseminated to Shareholders in due course.

AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial report matters including the review of the Company's annual results for the year ended 31 December 2014.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zlkcxd.cn). The annual report for the year ended 31 December 2014 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders and available on the same websites in due course.

By order of the Board of
Zuoli Kechuang Micro-finance Company Limited*
YU Yin
Chairman

Hong Kong, 27 March 2015

As at the date of this announcement, the executive Directors are Mr. YU Yin, Mr. ZHENG Xuegen, Mr. HU Haifeng and Mr. DING Maoguo; the non-executive Director is Mr. PAN Zhongmin; and the independent non-executive Directors are Mr. HO Yuk Ming, Hugo, Mr. JIN Xuejun and Ms. HUANG Lianxi.

* *For identification purposes only*