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)

2015 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 and its subsidiaries (the "**Group**") for the year ended 31 December 2015 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 of the Board have reviewed and confirmed the Annual Results.

ANNUAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in RMB'000, unless otherwise stated)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015

(Expressed in RMB'000, unless otherwise stated)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company							
	Paid-in/ share capital	**Capital/ share reserve**	**Surplus reserve**	**General reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 20(c)	*Note 20(d)(i)*	*Note 20(d)(ii)*	*Note 20(d)(iii)*				
Balance at 1 January 2015	880,000	12,303	7,858	—	70,718	970,879	—	970,879
Changes in equity for 2015:								
Acquisition of subsidiary *(Note 14)*	—	—	—	—	—	—	6,983	6,983
Profit and total comprehensive income for the year	—	—	—	—	146,086	146,086	433	146,519
H Shares issued (Note 20(c))	300,000	(12,303)	(7,858)	—	(8,627)	271,212	—	271,212
Appropriation to surplus reserve	—	—	13,508	—	(13,508)	—	—	—
Appropriation to general reserve	—	—	—	10,984	(10,984)	—	—	—
Balance at 31 December 2015	1,180,000	—	13,508	10,984	183,685	1,388,177	7,416	1,395,593
Balance at 1 January 2014	510,000	33,292	7,819	—	38,369	589,480	—	589,480
Changes in equity for 2014:								
Profit and total comprehensive income for the year	—	—	—	—	93,399	93,399	—	93,399
Capital injection	240,000	48,000	—	—	—	288,000	—	288,000
Appropriation to surplus reserve	—	—	7,858	—	(7,858)	—	—	—
Conversion into joint stock limited liability Company	130,000	(68,989)	(7,819)	—	(53,192)	—	—	—
Balance at 31 December 2014	880,000	12,303	7,858	—	70,718	970,879	—	970,879

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in RMB'000, unless otherwise stated)

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

The accompanying notes form part of the financial statements.

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"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Group.

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

The preparation of financial statements in conformity with HKFRSs requires management to make 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 recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 24.

(c) Changes in accounting policies

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

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

— *Annual Improvements to HKFRSs 2010–2012 Cycle*

— *Annual Improvements to HKFRSs 2011–2013 Cycle*

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

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

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

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

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

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(f) Fixed assets

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

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

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

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

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

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

(g) Leased assets

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

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

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

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

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

(h) Financial instruments

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

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

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

Financial assets and financial liabilities are categorized as follows:

— *Loans and receivables*

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

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

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

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

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

— *Other financial liabilities*

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

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

(ii) *Impairment of financial assets*

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

Objective evidence includes the following loss event:

— significant financial difficulty of the debtor;

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

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

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

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

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

Loans and receivables

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

— Individual assessment

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

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

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

— Collective assessment

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

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

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

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

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

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

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

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

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

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

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

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

— the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

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

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

(v) ***Offsetting***

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

(vi) ***Equity instruments***

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

(i) Interest-bearing borrowings

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

(j) Cash and cash equivalents

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

(k) Impairment of non-financial assets

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

— fixed assets (other than revalued amounts);

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

— goodwill; and

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

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

— ***Calculation of recoverable amount***

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

— ***Recognition of impairment losses***

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

— ***Reversals of impairment losses***

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

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

(l) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plan.

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

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

(m) Income tax

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

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

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

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

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

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

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

(n) Provisions and contingent liabilities

(i) *Contingent liabilities assumed in business combinations*

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

(ii) *Other provisions and contingent liabilities*

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

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

(o) Revenue recognition

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

(i) *Interest income*

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

(ii) *Government grants*

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

(p) Translation of foreign currencies

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

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

(q) Borrowing costs

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

(r) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

(s) Segment reporting

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

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

2 NET INTEREST INCOME

The principal activity of the Group is the provision of loans to customers in Huzhou City, Zhejiang Province, the PRC. The amount of each significant category of revenue recognised is as follows:

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

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

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

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

3 OTHER NET INCOME

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

4 IMPAIRMENT LOSSES

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

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) ***Staff costs***

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

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

(b) ***Other items***

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

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

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

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

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

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

Notes:

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

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

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

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

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

	2014			
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chairman				
Yu Yin (俞寅)	6	212	54	272
Executive directors				
Zheng Xuegen (鄭學根)	6	120	54	180
Hu Haifeng (胡海峰)	6	175	54	235
Ding Maoguo (丁茂國) (Appointed on 28 April 2014)	5	100	39	144
Chu Nongying (褚農穎) (Resigned on 18 February 2014)	1	—	—	1
Non-executive directors				
Pan Zhongmin (潘忠敏) (Appointed on 8 August 2014)	3	—	—	3
Chu Nongying (褚農穎) (Appointed on 19 February 2014 and resigned on 27 April 2014)	1	—	—	1
Zhang Jianming (張建明) (Resigned on 27 April 2014)	2	—	—	2
Qiu Weiguo (邱偉國) (Resigned on 27 April 2014)	2	—	—	2
Tang Hairong (唐海榮) (Resigned on 27 April 2014)	2	—	—	2
Yu Chao (俞超) (Resigned on 27 April 2014)	2	—	—	2
Shen Detang (沈德堂) (Resigned on 27 April 2014)	2	—	—	2

	2014			
	Director's fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
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

There were no amounts paid during the years ended 31 December 2015 and 2014 to the directors and supervisors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join. There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the years ended 31 December 2015 and 2014.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

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

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

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

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average of ordinary shares in issue during the year as follows:

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

(i) Weighted average number of ordinary shares

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

There were no dilutive potential ordinary shares during the years ended 31 December 2015 and 2014, and therefore, diluted earnings per share are the same as the basic earnings per share.

10 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

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

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

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

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

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

(b) Analysed by type of collateral

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

(c) Analysed by industry sector

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

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

	31 December 2015				
	Overdue within 3 months (inclusive) *RMB'000*	**Overdue more than 3 months to 6 months (inclusive)** *RMB'000*	**Overdue more than 6 months to one year (inclusive)** *RMB'000*	**Overdue more than one year** *RMB'000*	**Total** *RMB'000*
Unsecured loans	**173**	**—**	**200**	**—**	**373**
Guaranteed loans	**1,215**	**—**	**400**	**3,487**	**5,102**
Collateralized loans	**580**	**2,300**	**3,600**	**3,787**	**10,267**
Total	**1,968**	**2,300**	**4,200**	**7,274**	**15,742**

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

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

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

	31 December 2015		
	Loans and advances for which allowances are collectively assessed *RMB'000*	**Loans and advances for which allowances are individually assessed** *RMB'000*	**Total** *RMB'000*
Gross loans and advances to customers	**1,420,297**	**35,072**	**1,455,369**
Less: Allowances for impairment losses	**(54,932)**	**(18,022)**	**(72,954)**
Net loans and advances to customers	**1,365,365**	**17,050**	**1,382,415**

	31 December 2014		
	Loans and advances for which allowances are collectively assessed	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

(f) Movements of allowances for impairment losses

	2015		
	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	**40,380**	**5,451**	**45,831**
Acquisition of subsidiary	**9,110**	**10,111**	**19,221**
Charge for the year	**5,442**	**10,837**	**16,279**
Reversal for the year	**—**	**(10,307)**	**(10,307)**
Write off	**—**	**(2,920)**	**(2,920)**
Recoveries of loans and advances written off in previous years	**—**	**4,850**	**4,850**
At 31 December	**54,932**	**18,022**	**72,954**

	2014		
	Provision for impairment losses which is collectively assessed	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

(g) Analysed by credit quality

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

12 GOODWILL

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

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

Impairment test

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

13 INVESTMENTS IN SUBSIDIARIES

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

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

Notes:

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

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

14 ACQUISITION OF SUBSIDIARY

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

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

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

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

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

(a) Identifiable assets acquired and liabilities assumed

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

(b) Goodwill

Goodwill arising from the acquisition has been recognised as follows.

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

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

15 FIXED ASSETS

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

16 OTHER ASSETS

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

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

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

17 INTEREST-BEARING BORROWINGS

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

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

18 ACCRUALS AND OTHER PAYABLES

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

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

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

19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

(b) Deferred tax assets recognised:

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

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

20 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

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

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

(b) Dividend

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

(c) Paid-in/Share capital

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

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

(d) Nature and purpose of reserves

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

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

(ii) ***Surplus reserve***

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

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

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

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

Pursuant to relevant regulations, the Company and its subsidiary in the PRC engaged in micro-finance business are required to set aside a general reserve through appropriations of profit after tax according to 1.5% of the ending balance of gross risk-bearing assets to cover potential losses against these assets before 30 June 2017. The directors of the Group expect to comply with the relevant regulations before 30 June 2017.

(e) Appropriation of profits

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

- Appropriate RMB13.5 million (10% of the net profit of the Company) to surplus reserve;
- Appropriate RMB9.2 million to general reserve; and declare cash dividends of RMB165.2 million representing RMB0.14 per share to all shareholders.

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

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

- Appropriate RMB7.9 million to surplus reserve.

(f) Distributable reserves

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

(g) Capital management

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

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

There were no changes in the Group's approach to capital management during the years ended 31 December 2015 and 2014.

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

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

Credit risk arising from micro-finance business

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

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

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

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

Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

When a certain number of clients undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to a particular industry or geographic location. As the Group mainly conducts micro-finance business in Huzhou City, Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions. At 31 December 2015, 2.13% (2014: 3.07%) and 9.53% (2014: 12.16%) of the total loans and advances to customers was due from the Group's largest customer and the five largest customers respectively.

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

Other credit risk

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

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

(b) Liquidity risk

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

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

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

	31 December 2014					
	Overdue/ Repayment on demand	Within three months	Between three months and one year	Between one year and five years	Total	Carrying amount
	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

(c) Interest risk

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

(i) *Interest rate profile*

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

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

(ii) *Sensitivity analysis*

At 31 December 2015 and 31 December 2014, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Group's net profit during the next 12 months by approximately RMB309,000 and RMB92,000 respectively.

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

(d) Fair value

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

Fair value hierarchy

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

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

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

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

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

22 COMMITMENTS

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

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

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

23 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	2015	2014
	RMB'000	*RMB'000*
Key management personnel Remuneration *(Note (i))*	**2,842**	1,566
Operating lease charges *(Note (ii))*	**515**	515
Receiving guarantees for bank loans *(Note (iii))*	**50,000**	—
Releasing guarantees for loans and advances to customers	**—**	(4,300)

Notes:

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

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

(iii) The guarantees in 2015 were provided by the Chairman of the Company without charges, among which RMB20.0 million and RMB30.0 million will be due on 22 December 2016 and 27 December 2016 respectively.

(b) Balances with key management personnel

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

(c) Other related party transactions

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

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

(d) Balances with other related parties

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

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

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

24 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) Impairment of receivables and loans and advances

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

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

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

(b) Impairment of long-lived assets

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

(c) Depreciation and amortisation

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

(d) Tax

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

25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**31 December 2015** *RMB'000*	31 December 2014 *RMB'000*
Assets			
Cash and cash equivalents		**71,849**	24,488
Interests receivables		**13,414**	9,795
Loans and advances to customers		**1,160,708**	1,109,394
Fixed assets		**3,436**	1,636
Investments in subsidiary		**241,134**	—
Deferred tax assets		**11,892**	15,182
Other assets		**835**	16,922
Total assets		**1,503,268**	1,177,417
Liabilities			
Interest-bearing borrowings		**100,000**	175,000
Accruals and other payables		**6,366**	21,798
Current taxation		**19,728**	9,740
Total liabilities		**126,094**	206,538
NET ASSETS		**1,377,174**	970,879
CAPITAL AND RESERVES	*20*		
Share capital		**1,180,000**	880,000
Reserves		**197,174**	90,879
TOTAL EQUITY		**1,377,174**	970,879

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

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

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

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

27 SUBSEQUENT EVENTS

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

(ii) On 11 December 2015, the board of the Company had approved a proposal of issuance of private bonds in the PRC with an aggregate amount no more than RMB600.0 million (inclusive), and the scale of subsisting balance shall not exceed RMB300.0 million (inclusive) at any time, with a maturity of 6 months for each tranche. Subject to the above total amount limit, the specific tranches of issue and the amount of issue per tranche will depend on market conditions. The interest rate will be determined by reference to the interest rate of private bond issuance in the market under the same conditions over the same period. As at 22 March 2016, the above proposed issuance of the private bonds is subject to the shareholders and relevant regulator's approval.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

We commenced our business in Huzhou City, Zhejiang Province, the People's Republic of China (the "**PRC**") and our main business is conducted in Deqing County, Huzhou City. Deqing has experienced robust economic development and growth recently. The county was placed among the nation's top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). A number of high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which has helped cultivate the local financial services sector. In addition, Deqing has been designated as a "technological outstanding county (科技強縣)", a "financial innovation demonstration county (金融創新示範縣)" as well as the "financial back-office base in Yangtze River Delta (長三角金融後台基地)" by the Zhejiang provincial government.

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

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

Business Overview

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

Our key customers primarily consist of customers engaged in agricultural business, customers engaged in rural development activities and/or customers residing in rural areas ("**AFR (三農)**"), small and medium enterprise (the "**SMEs**") and microenterprises in various industries as well as online retailers in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products.

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

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

Note:

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

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

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

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

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

For the years ended 31 December 2014 and 2015, 51.9% and 87.3% of our loan contracts were of the amount of up to RMB1million, respectively. In our loan contracts, the proportion of loans with a maximum amount of RMB1 million increased drastically during the aforementioned period, which was mainly due to the newly commenced online loans business in the year of 2015, of which the amount of loan per unit is restricted to be within RMB500,000.

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

Loan Portfolio by Security

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

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

Note:

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

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

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

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

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

Note:

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

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

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

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

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

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

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

Notes:

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

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

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

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

Financial Overview

Net interest income

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

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

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

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rate that we charge on loans to our customers. Our balance of outstanding loans increased during the reporting period, generally in line with the size of our capital base, which in turn is affected by the size of our registered capital and bank borrowings. As of 31 December 2014 and 2015, our average interest rates for loans were 15.6% and 15.6%, respectively. Our unchanged average interest rate during the reporting period was primarily due to our continuous focus on serving customers with stronger repayment ability in 2015, of which we charged relatively lower interest rate.

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

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

Other net income

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

Impairment losses

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

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

Administrative expenses

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

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

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

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

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

Income tax

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

Profit for the year

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

Liquidity and Capital Resources

The H shares of the Company (the "**H Shares**") were listed on the main board of the Stock Exchange on 13 January 2015 (the "**Listing Date**") 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 met our working capital and other capital requirements primarily related to extending loans and other working capital requirements mainly by equity contributions from shareholders of the Company (the "**Shareholders**"), bank borrowings and cash flows from operations. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity level that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than normal bank borrowings we obtain from commercial banks, domestic corporate bonds to be issued and potential debt financing plans such as asset securitization, we do not expect to have any material external debt financing plan in the near future.

Working Capital Management

Cash flows

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

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

Net cash generated from/(used in) operating activities

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

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

Net cash (used in)/generated from investing activities

For the year ended 31 December 2015, our net cash used in investing activities was RMB241.3 million. Our net cash outflows for investing activities mainly consisted of (i) investment amount paid for the acquisition for Jinhui Finance of RMB238.3 million; (ii) rental expenses and property's decoration fees of RMB2.0 million; and (iii) amount paid for equipment purchase of RMB1.1 million. Our cash inflows from investing activities was 0.1 million of cash from disposal of equipment.

Net cash generated from financing activities

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

Cash management

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

Selected items of the statement of financial position

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

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

Cash and cash equivalents

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

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

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

Interest receivables

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

Loans and advances to customers

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

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

Note:

(1) Include loans to sole proprietors.

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

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

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

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

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

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

Note:

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

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

Other assets

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

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

Note:

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

Accruals and other payables

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

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

The decrease of our accruals and other payables was mainly due to the receipt of conditional government grants RMB13.0 million from the People's Government of Deqing county by the Company in 2014. The condition was that the Company shall be listed on The Stock Exchange by the end of

2016. As the Company was listed on the main board of the Stock Exchange on 13 January 2015, the above conditional government grants were recognised as other net income for the year ended 31 December 2015.

Current tax

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

Capital commitments

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

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

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

Note:

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

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

Note:

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

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

Related party transactions

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

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

During the reporting period, certain of our Shareholders and Directors, including Deqing Puhua Energy Company Limited* (德清普華能源有限公司), had guaranteed some of our bank borrowings. Bank borrowings amounted to RMB100.0 million as of 31 December 2015. Such related party transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules and are fully exempted from Shareholders' approval, annual review and all disclosure requirements.

Indebtedness

Borrowings

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

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

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

Off-balance Sheet Arrangements

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

Employment and Emoluments

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

Prospects

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

In terms of our major market of offline business, Deqing was placed among the nation's top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). A number of high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, thus helping cultivate the local financial services sector. In addition, Deqing has been designated as a "technological outstanding county (科技強縣)" as well as a "financial innovation demonstration county (金融創新示範縣)" by the Zhejiang provincial government. Therefore, we expect Deqing to continue to experience stable economy and provide us with a relatively conducive market environment for us to grow our market share as we continue to introduce innovative loan products, broaden business channels, enhance our market penetration and increase our competitive advantages by utilizing the advantage of our capital base.

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

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

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

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

Use of Proceeds

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

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

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 three executive Directors (Mr. Ding Maoguo, the executive Director, resigned on 24 July 2015), 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 set out in Appendix 14 to the Listing Rules. Throughout the period since the Listing Date, the Company has fully complied with the Code Provisions.

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. 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 2015.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.14 per share for the year ended 31 December 2015 to Shareholders whose names appear on the Company's register of members on Tuesday, 12 July 2016 (the "**Proposed Final Dividend**"). Subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Thursday, 30 June 2016 (the "**AGM**"), the Proposed Final Dividend is expected to be paid on or around Friday, 12 August 2016.

CLOSURE OF REGISTER OF MEMBERS

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

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

CHANGES OF INFORMATION OF DIRECTORS AND SUPERVISORS

Mr. Ding Maoguo has tendered his resignation as an executive Director and chief financial officer of the Company with effect from 24 July 2015 to further his personal career development.

INTEREST OF DIRECTORS AND SUPERVISORS IN A COMPETING BUSINESS

None of the Directors, the supervisors of the Company 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

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

On 11 December 2015, the board of the Company had approved a proposal of issuance of private bonds in the PRC with an aggregate amount no more than RMB600.0 million (inclusive), and the scale of subsisting balance shall not exceed RMB300.0 million (inclusive) at any time, with a maturity of 6 months for each tranche. Subject to the above total amount limit, the specific tranches of issue and the amount of issue per tranche will depend on market conditions. The interest rate will be determined by reference to the interest rate of private bond issuance in the market under the same conditions over the same period. As at 22 March 2016, the above proposed issuance of the private bonds is subject to the shareholders and relevant regulator's approval.

AGM

The AGM of the Company will be held at Deqing Hall, 5th Floor, Moganshan Hotel*, Deqing County, Zhejiang Province, the PRC on Thursday, 30 June 2016. 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 2015.

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 2015 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
Zuoli Kechuang Micro-finance Company Limited*
YU Yin
Chairman

Hong Kong, 22 March 2016

As at the date of this announcement, the executive Directors are Mr. YU Yin, Mr. ZHENG Xuegen and Mr. HU Haifeng; 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*