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)

2016 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 2016 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 Company 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 2016

(Expressed in Renminbi '000, unless otherwise stated)

	Note	**2016**	2015
		RMB'000	*RMB'000*
Interest income		**243,360**	212,128
Interest and commission expenses		**(24,139)**	(8,177)
Net interest income	*2*	**219,221**	203,951
Other net income	*3*	**22,858**	41,328
Impairment losses	*4*	**(836)**	(5,972)
Administrative expenses		**(40,374)**	(42,346)
Profit before taxation	*5*	**200,869**	196,961
Income tax	*6*	**(50,333)**	(50,442)
Profit and total comprehensive income for the year		**150,536**	146,519
Attributable to:			
Equity shareholders of the Company		**146,147**	146,086
Non-controlling interests		**4,389**	433
Profit for the year		**150,536**	146,519
Earnings per share			
Basic and diluted (RMB)	*9*	**0.12**	0.12

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016
(Expressed in RMB'000, unless otherwise stated)

	Note	**31 December 2016** *RMB'000*	31 December 2015 *RMB'000*
Assets			
Cash and cash equivalents	*10(a)*	**29,208**	82,572
Restricted deposits		**15,000**	—
Interests receivables		**19,033**	14,852
Loans and advances to customers	*11*	**1,807,164**	1,382,415
Intangible assets		**36**	—
Goodwill	*12*	**22,502**	18,005
Fixed assets	*15*	**18,983**	4,162
Available-for-sale financial assets	*16*	**72,700**	—
Deferred tax assets	*21(b)*	**16,981**	16,966
Other assets	*17*	**31,659**	3,598
Total assets		**2,033,266**	1,522,570
Liabilities			
Interest-bearing borrowings	*18*	**250,000**	100,000
Accruals and other payables	*19*	**28,833**	7,249
Debt securities issued	*20*	**278,283**	—
Current taxation	*21(a)*	**11,575**	19,728
Total liabilities		**568,691**	126,977
NET ASSETS		**1,464,575**	1,395,593
CAPITAL AND RESERVES	*22*		
Share capital		**1,180,000**	1,180,000
Reserves		**189,124**	208,177
Total equity attributable to equity shareholders of the Company		**1,369,124**	1,388,177
Non-controlling interests		**95,451**	7,416
TOTAL EQUITY		**1,464,575**	1,395,593

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company							
	Share 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 22(c)	*Note 22(d)(i)*	*Note 22(d)(ii)*	*Note 22(d)(iii)*				
Balance at 1 January 2016	1,180,000	—	13,508	10,984	183,685	1,388,177	7,416	1,395,593
Changes in equity for 2016:								
Acquisition of subsidiary *(Note 14(b))*	—	—	—	—	—	—	83,646	83,646
Profit and total comprehensive income for the year	—	—	—	—	146,147	146,147	4,389	150,536
Appropriation to surplus reserve	—	—	11,614	—	(11,614)	—	—	—
Appropriation to general reserve	—	—	—	24,797	(24,797)	—	—	—
Dividends approved in respect of the previous year *(Note 22(b))*	—	—	—	—	(165,200)	(165,200)	—	(165,200)
Balance at 31 December 2016	1,180,000	—	25,122	35,781	128,221	1,369,124	95,451	1,464,575
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	—	—	—	—	—	—	6,983	6,983
Profit and total comprehensive income for the year	—	—	—	—	146,086	146,086	433	146,519
H Shares issued *(Note 22(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

The accompanying notes form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in RMB'000, unless otherwise stated)

	Note	**2016**	2015
		RMB'000	*RMB'000*
Operating activities			
Cash generated from operations	*10(b)*	**11,748**	125,516
PRC income tax paid	*21(a)*	**(55,792)**	(32,460)
Net cash (used in)/generated from operating activities		**(44,044)**	93,056
Investing activities			
Proceeds from disposal of investments		**5,301,584**	—
Proceeds from disposal of fixed assets		**—**	113
Payment for the purchase of fixed assets and intangible assets		**(16,643)**	(3,052)
Payments on acquisition of subsidiary	*14(c)*	**(117,967)**	(238,348)
Payments on acquisition of investments		**(5,372,696)**	—
Others		**(2,000)**	—
Net cash (used in) investing activities		**(207,722)**	(241,287)
Financing activities			
Proceeds from capital injection		**—**	313,764
Proceeds from new bank loans		**150,000**	100,000
Proceeds from debt securities issued		**425,000**	—
Proceeds from third parties under repurchase agreements		**135,000**	—
Repayment of bank loans		**(150,000)**	(175,000)
Repayment of debt securities issued		**(175,000)**	—
Interest paid		**(21,073)**	(8,576)
Dividends paid to equity shareholders of the Company		**(165,200)**	—
Cash paid for other financing activities		**—**	(23,872)
Net cash generated from financing activities		**198,727**	206,316
Net (decrease)/increase in cash and cash equivalents		**(53,039)**	58,085
Cash and cash equivalents at 1 January	*10(a)*	**82,572**	24,488
Effect of foreign exchange rate changes		**(325)**	(1)
Cash and cash equivalents at 31 December	*10(a)*	**29,208**	82,572

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. Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for the available-for-sale financial assets (see Note1 (h)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 26.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(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
Premises	20 years
Office and other equipment	5 years
Motor vehicles	5 years
Electronic equipment	5 years
Leasehold improvement	5 years

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

(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.

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.

— *Available-for-sale financial assets*

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

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

— *Other financial liabilities*

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

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

(ii) *Impairment of financial assets*

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

Objective evidence includes the following loss event:

— significant financial difficulty of the debtor;

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

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

Available-for-sale financial assets

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

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

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

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

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

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

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

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

(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 amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(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;

— intangible assets;

— goodwill; and

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

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

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

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

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

(l) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

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

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

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

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

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

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

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

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

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

    — the same taxable entity; or

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

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

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

(o) 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(o)(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(o)(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.

(p) Revenue recognition

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

(i) *Interest income*

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

(ii) *Government grants*

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

(q) 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.

(r) Borrowing costs

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

(s) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

(t) 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 Zhejiang Province, the PRC. The amount of each significant category of revenue recognised is as follows:

	2016	2015
	RMB'000	*RMB'000*
Interest income arising from		
Loans and advances to customers	**242,370**	210,732
Cash at banks	**990**	1,396
	243,360	212,128
Interest and commission expenses arising from		
Borrowings from banks	**(11,791)**	(8,105)
Borrowings from non-bank institutions	**(12,277)**	—
Bank charges	**(71)**	(72)
	(24,139)	(8,177)
Net interest income	**219,221**	203,951

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 2016 and 2015. Details of concentration of credit risk are set out in Note 23(a).

For the years ended 31 December 2016 and 2015, 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 Zhejiang Province in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded Zhejiang Province as its place of domicile. All the Group's revenue and assets are principally attributable to Zhejiang Province, being the main operating region.

3 OTHER NET INCOME

	2016 *RMB'000*	2015 *RMB'000*
Government grants	**21,645**	35,171
Exchange (losses)/gains	**(325)**	6,178
Investment income from available-for-sale financial assets	**1,588**	—
Others	**(50)**	(21)
Total	**22,858**	41,328

4 IMPAIRMENT LOSSES

	2016 *RMB'000*	2015 *RMB'000*
Loans and advances to customers *(Note 11)*	**780**	5,972
Interest receivables	**21**	—
Other assets	**35**	—
Total	**836**	5,972

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	2016 *RMB'000*	2015 *RMB'000*
Salaries, bonuses and allowance	**9,507**	4,971
Contribution to retirement scheme	**591**	300
Social insurance and other benefits	**1,989**	2,938
Total	**12,087**	8,209

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

	2016	2015
	RMB'000	*RMB'000*
Amortization of intangible assets	**8**	—
Depreciation expenses *(Note 15)*	**1,917**	1,179
Operating lease charges in respect of building	**882**	818
Auditors' remuneration		
— audit services	**2,754**	2,232
— other services	**236**	—

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

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

	2016	2015
	RMB'000	*RMB'000*
Current tax *(Note 21(a))*		
Provision for PRC income tax for the year	**47,639**	42,448
Deferred tax *(Note 21(b))*		
Origination and reversal of temporary differences	**2,694**	7,994
Total	**50,333**	50,442

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

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation	**200,869**	196,961
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned *(Notes)*	**50,217**	49,240
Effect of non-deductible expenses	**116**	1,202
Actual income tax expense	**50,333**	50,442

Notes:

(i) The Company and the subsidiaries of the Group incorporated in the PRC are subject to PRC income tax at the statutory tax rate of 25% for the year ended 31 December 2016 (2015: 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 2016 (2015: nil).

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2016			
	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	100	466
Executive directors				
Zheng Xuegen (鄭學根)	6	240	100	346
Hu Haifeng (胡海峰)	6	300	100	406
Yang Sheng(楊晟) (Appointed on 7 April, 2016)	6	180	100	286
Non-executive director				
Pan Zhongmin (潘忠敏)	6	—	—	6
Independent non-executive directors				
Ho Yuk Ming, Hugo (何育明)	103	—	—	103
Jin Xuejun (金雪軍)	100	—	—	100
Huang Lianxi (黃廉熙)	100	—	—	100
Supervisors				
Shen Yamin (沈婭敏)	6	72	52	130
Dai Shengqing (戴勝慶)	6	—	—	6
Wang Peijun (王培軍)	6	—	—	6
	351	1,152	452	1,955

	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 director				
Pan Zhongmin (潘忠敏)	6	—	—	6
Independent non-executive directors				
Ho Yuk Ming, Hugo (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

There were no amounts paid during the years ended 31 December 2016 and 2015 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 2016 and 2015.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2015: three) are directors or supervisors of the Group for the year ended 31 December 2016, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other individual are as follow:

	2016	2015
	RMB'000	*RMB'000*
Salaries and other emoluments	**240**	386
Discretionary bonuses	**52**	108
	292	494

The emoluments of the one (2015: two) individuals with the highest emoluments are within the following bands:

	2016	2015
	Number of individuals	*Number of individuals*
Hong Kong dollar		
Nil — 1,000,000	**1**	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 2016 and 2015.

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:

	2016	2015
Profit attributable to the equity shareholders of the Company (RMB'000)	**146,147**	146,086
Weighted average number of ordinary shares in issue ('000)	**1,180,000**	1,170,137
Basic earnings per share (RMB)	**0.12**	0.12

(a) Weighted average number of ordinary shares

	2016	2015
	'000	*'000*
Issued ordinary shares at 1 January	**1,180,000**	880,000
Effect of H share issued *(Note 22(c))*	**—**	290,137
Weighted average number of ordinary shares at 31 December	**1,180,000**	1,170,137

There were no dilutive potential ordinary shares during the years ended 31 December 2016 and 2015, 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 2016	31 December 2015
	RMB'000	*RMB'000*
Cash in hand	**2**	2
Cash at banks	**23,152**	82,398
Others	**6,054**	172
Cash and cash equivalents in the cash flow statement	**29,208**	82,572

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

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation	**200,869**	196,961
Adjustment for:		
Impairment losses	**836**	5,972
Depreciation and amortisation	**1,925**	1,179
Exchange losses/(gains)	**325**	(6,178)
Interest expenses	**24,068**	8,105
Investment income	**(1,588)**	—
Changes in working capital:		
Increase in loans and advances to customers	**(209,806)**	(67,176)
Increase in interest receivables and other assets	**(3,311)**	(975)
Decrease in accruals and other payables	**(1,570)**	(12,372)
Cash generated from operations	**11,748**	125,516

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Corporate loans	**547,212**	708,934
Retail loans	**1,024,138**	643,174
Internet loans	**318,170**	103,261
Gross loans and advances to customers	**1,889,520**	1,455,369
Less: Allowances for impairment losses		
— Collectively assessed	**(64,884)**	(54,932)
— Individually assessed	**(17,472)**	(18,022)
Total allowances for impairment losses	**(82,356)**	(72,954)
Net loans and advances to customers	**1,807,164**	1,382,415

(b) Analysed by type of collateral

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Unsecured loans	**170,888**	91,144
Guaranteed loans	**1,651,250**	1,283,653
Collateralized loans	**59,602**	79,972
Pledged loans	**7,780**	600
Gross loans and advances to customers	**1,889,520**	1,455,369
Less: Allowances for impairment losses		
— Collectively assessed	**(64,884)**	(54,932)
— Individually assessed	**(17,472)**	(18,022)
Total allowances for impairment losses	**(82,356)**	(72,954)
Net loans and advances to customers	**1,807,164**	1,382,415

(c) Analysed by industry sector

	31 December 2016		31 December 2015	
	RMB'000	**%**	*RMB'000*	%
Wholesale and retail	**154,889**	**8%**	282,920	19%
Agriculture, forestry, animal husbandry and fishery	**98,720**	**6%**	197,220	14%
Construction	**81,300**	**4%**	158,492	11%
Manufacturing	**80,303**	**4%**	35,752	3%
Others	**132,000**	**7%**	34,550	2%
Corporate loans	**547,212**	**29%**	708,934	49%
Retail loans	**1,024,138**	**54%**	643,174	44%
Internet loans	**318,170**	**17%**	103,261	7%
Gross loans and advances to customers	**1,889,520**	**100%**	1,455,369	100%
Less: Allowances for impairment losses	**(82,356)**		(72,954)	
Net loans and advances to customers	**1,807,164**		1,382,415	

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

	31 December 2016				
	Overdue within 3 months (inclusive)	**Overdue more than 3 months to 6 months (inclusive)**	**Overdue more than 6 months to one year (inclusive)**	**Overdue more than one year**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Unsecured loans	**3,376**	**4,200**	**4,677**	**—**	**12,253**
Guaranteed loans	**4,646**	**3,754**	**394**	**1,103**	**9,897**
Collateralized loans	**1,300**	**—**	**229**	**7,358**	**8,887**
Total	**9,322**	**7,954**	**5,300**	**8,461**	**31,037**

	31 December 2015				
	Overdue within 3 months (inclusive)	Overdue more than 3 months to 6 months (inclusive)	Overdue more than 6 months to one year (inclusive)	Overdue more than one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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

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

	31 December 2015		
	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	1,420,297	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

(f) Movements of allowances for impairment losses

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

	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

(g) **Analysed by credit quality**

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Gross balance of loans and advances to customers		
Neither overdue nor impaired	**1,858,483**	1,420,297
Overdue but not impaired	**4,052**	—
Impaired	**26,985**	35,072
	1,889,520	1,455,369
Less: Allowances for impairment losses		
Neither overdue nor impaired	**(64,560)**	(54,932)
Overdue but not impaired	**(324)**	—
Impaired	**(17,472)**	(18,022)
	(82,356)	(72,954)
Net balance		
Neither overdue nor impaired	**1,793,923**	1,365,365
Overdue but not impaired	**3,728**	—
Impaired	**9,513**	17,050
	1,807,164	1,382,415

12 GOODWILL

	RMB'000
Cost:	
At 1 January 2016	18,005
Addition through acquisition of a subsidiary	4,497
At 31 December 2016	22,502
Accumulated impairment losses:	
At 31 December 2016 and 2015	—
Carrying amount:	
At 31 December 2016	22,502
At 31 December 2015	18,005

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

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance")	**18,005**	18,005
Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd. (杭州市高新區(濱江)興耀普匯小額貸款有限公司) ("Xingyao Micro-finance") *(see Note 14)*	**4,497**	—
	22,502	18,005

The Group acquired 96.9298% equity interest in Jinhui Micro-finance for a total consideration of RMB238.5 million on 1 July 2015. The excess of the acquisition costs over the net fair value of Jinhui Micro-finance's identifiable net assets of RMB18.0 million was recorded as goodwill and allocated to the micro-finance operation of Jinhui Micro-finance.

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

Impairment test

The recoverable amount of the acquired subsidiaries are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 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 the acquired subsidiaries.

13 INVESTMENTS IN SUBSIDIARIES

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

Name of Companies	Place of incorporation and business	Paid up capital	Proportion of ownership interest Group's effective interest	Proportion of ownership interest Held by the Company	Principal activities
Jinhui Micro-finance *(Notes(i))*	Deqing, Zhejiang	228,000,000	96.9298%	96.9298%	Micro-finance
Zuoli Micro-finance Hong Kong International Investment Company Limited 佐力小貸香港國際投資有限公司 ("Zuoli HK") *(Notes(ii))*	Hong Kong		100%	100%	Investment, Trading
Xingyao Micro-finance *(Notes(iii))*	Hangzhou, Zhejiang	200,000,000	60%	60%	Micro-finance

Notes:

(i) Jinhui Micro-finance was not audited by KPMG for the year ended 31 December 2016. The financial statements of Jinhui Micro-finance not audited by KPMG reflect total net assets and total net interest income constituting approximately 18.23% and 14.27% 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 2016, the issued shares had not been paid by the Company.

(iii) Xingyao Micro-finance was not audited by KPMG for the period from 18 November 2016 (date of acquisition) to 31 December 2016. The financial statements of Xingyao Micro-finance not audited by KPMG reflect total net assets and total net interest income constituting approximately 14.89% and 1.51% respectively of the related consolidated amounts of the Group.

14 ACQUISITION OF SUBSIDIARY

On 15 August 2016, the Company acquired 60% equity interests in Xingyao Micro-finance at a total consideration of approximately RMB130.0 million. The above acquisition was completed on 17 November 2016. As at 31 December 2016, the Company had paid cash of RMB120.0 million and recognized an acquisition consideration payable of approximately RMB10.0 million.

The consideration of approximately RMB130.0 million aforementioned included: (1) the cash consideration of RMB120.0 million paid; (2) the government grant of RMB2.4 million and RMB7.6 million of the estimated repayment received by Xingyao Micro-finance in relation to the principals and interests of designated loans(the "Outstanding Receivables"), which will be paid to the original shareholders ("Selling Shareholders") who have equities in Xingyao Micro-finance.

Pursuant to the share purchase agreement ("Purchase Agreement") signed on 15 August 2016, the Company has agreed to pay the selling shareholders a consideration no more than RMB4.0 million which was equal to the tax refunds in relation to the years ended 31 December 2015 and 2016 and would be received from the related government authorities by Xingyao Micro-finance subsequent to the date of Purchase Agreement and before 31 January 2017 and 31 January 2018, respectively. By 31 December 2016, the Group has received the related government grant of RMB2.4 million and recognised it as acquisition consideration payable.

Pursuant to the Purchase Agreement, the Company has also agreed to pay the selling shareholders a consideration which was equal to the actual repayment received by Xingyao Micro-finance in relation to the Outstanding Receivables subsequent to the date of Purchase Agreement. The principal amounts of the Outstanding Receivables were RMB9.7 million. As at 31 December 2016, the Group estimated that RMB7.6 million of the Outstanding Receivables will be collected and recognised it as acquisition consideration payable.

From the date of the above acquisition to 31 December 2016, Xingyao Micro-finance contributed net interest income of RMB3.3 million, and net profit of RMB9.0 million to the Group's results. If the acquisition had occurred on 1 January 2016, management estimates that consolidated net interest income would have been RMB256.9 million, and consolidated net profit for the year would have been RMB162.6 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 2016.

(a) Identifiable assets acquired and liabilities assumed

	RMB'000
Cash and cash equivalents	2,033
Interests receivables	3,094
Loans and advances to customers	215,723
Fixed assets *(Note 15)*	136
Deferred tax assets *(Note 21(b))*	2,709
Other assets	163
Dividends payable	(2,000)
Accruals and other payables	(6,801)
Current taxation	(5,942)
Total identifiable net assets acquired	209,115

(b) Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	RMB'000
Consideration transferred	129,966
Non-controlling interests, based on the proportionate interest in the recognised amounts of the assets and liabilities of Xingyao Micro-finance	83,646
Fair value of the identifiable net assets acquired *(Note 14(a))*	(209,115)
Goodwill *(Note 12)*	4,497

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

(c) Payments on acquisition of subsidiary

Payments on acquisition of subsidiary has been recognised as follows:

	RMB'000
Cash paid	120,000
Acquired cash and cash equivalents	(2,033)
Payments on acquisition of subsidiary	117,967

15 FIXED ASSETS

	Premise *(Note)* *RMB'000*	**Office and other equipment** *RMB'000*	**Motor vehicles** *RMB'000*	**Electronic equipment** *RMB'000*	**Leasehold improvement** *RMB'000*	**Total** *RMB'000*
Cost:						
At 1 January 2015	—	588	1,185	346	1,545	3,664
Acquisition of subsidiary	—	69	215	125	966	1,375
Additions	—	73	380	672	2,045	3,170
Disposal	—	—	(215)	—	—	(215)
At 31 December 2015 and 1 January 2016	—	730	1,565	1,143	4,556	7,994
Acquisition of subsidiary *(Note 14(a))*	—	280	415	—	—	695
Additions	13,366	173	1,079	352	1,632	16,602
At 31 December 2016	13,366	1,183	3,059	1,495	6,188	25,291
Accumulated depreciation:						
At 1 January 2015	—	(360)	(431)	(181)	(1,056)	(2,028)
Acquisition of subsidiary	—	(34)	(98)	(80)	(515)	(727)
Charge for the year	—	(138)	(259)	(107)	(675)	(1,179)
Disposal	—	—	102	—	—	102
At 31 December 2015 and 1 January 2016	—	(532)	(686)	(368)	(2,246)	(3,832)
Acquisition of subsidiary *(Note 14(a))*	—	(185)	(374)	—	—	(559)
Charge for the year	—	(157)	(398)	(261)	(1,101)	(1,917)
At 31 December 2016	—	(874)	(1,458)	(629)	(3,347)	(6,308)
Net book value:						
At 31 December 2016	13,366	309	1,601	866	2,841	18,983
At 31 December 2015	—	198	879	775	2,310	4,162

Note: At 31 December 2016, the Group is in the process of obtaining the land use right certificate of the premise.

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Wealth management products *(Note)*	**72,700**	—

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

17 OTHER ASSETS

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Prepaid principal and interests of debts issued	**25,798**	—
Prepaid income tax *(Note)*	**205**	1,808
Prepayment	**5,424**	1,693
Others	**232**	97
	31,659	3,598

Note: Prepaid income tax represents the over-paid income tax by a subsidiary of the Group incorporated in the PRC for the years ended 31 December 2015 and 2016.

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

18 INTEREST-BEARING BORROWINGS

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Bank loans *(Notes (i))*		
— Guaranteed by related parties	**100,000**	100,000
Borrowing from third parties under a repurchase agreement *(Notes (ii))*		
— Guaranteed by related parties	**150,000**	—
	250,000	100,000

Notes:

(i) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 23(b). At 31 December 2016 and 31 December 2015, none of the covenants relating to the bank loans had been breached.

(ii) Pursuant on a transfer and repurchase agreement entered into by the Group and an assets management company in the PRC in August 2016, the Group obtained a financing of RMB150.0 million at an interest rate of 6.60% per annum by transferring and repurchasing the beneficial right of certain loans of the Group. The above transaction was guaranteed by certain shareholders with their share interest in the Company.

19 ACCRUALS AND OTHER PAYABLES

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Value-added tax payable	**978**	—
Business tax and surcharges and other taxation payable	**150**	1,750
Accrued staff costs	**3,453**	1,748
Interest payable	**503**	61
Acquisition consideration payable *(Note 14)*	**9,966**	—
Dividends payable	**5,917**	—
Other payables	**7,866**	3,690
	28,833	7,249

20 DEBT SECURITIES ISSUED

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Debt securities at amortized cost *(Note)*	**278,283**	—

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

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Balance of income tax payable at the beginning of the year	**19,728**	9,740
Provision for PRC income tax for the year *(Note 6(a))*	**47,639**	42,448
Income tax paid during the year	**(55,792)**	(32,460)
Balance of income tax payable at the end of the year	**11,575**	19,728

(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 2016 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*	*RMB'000*
At 1 January 2015	11,458	474	3,250	—	15,182
Acquisition of subsidiary	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 and 1 January 2016	13,765	757	—	2,444	16,966
Acquisition of subsidiary *(Note 14(a))*	2,680	29	—	—	2,709
Charged to profit or loss *(Note 6(b))*	28	(278)	—	(2,444)	(2,694)
At 31 December 2016	16,473	508	—	—	16,981

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

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

	Share capital	Share reserve	Surplus reserve	General reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 22(c)	*Note 22(d)(i)*	*Note 22(d)(ii)*	*Note 22(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 22(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

(b) Dividends

The Group paid cash dividends of RMB165.2 million (RMB0.14 per share) during the year ended 31 December 2016, which were attributable to the previous financial year (2015: nil).

(c) Share capital

As at 31 December 2016, 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.

On 13 January 2015, 300,000,000 ordinary shares of the Company were issued and listed on The Stock Exchange of Hong Kong Limited.

(d) Nature and purpose of reserves

(i) *Share reserve*

The share reserve mainly comprises share premium, which represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

(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 subsidiaries in the PRC engaged in micro-finance business are required to set aside a general reserve through appropriations of profit after tax according to 1.5% of the ending balance of gross risk-bearing assets to cover potential losses against these assets.

(e) Appropriation of profits

(i) In accordance with the resolution of the Company's board of directors meeting on 20 March 2017, the proposed profit appropriations for the year ended 31 December 2016 are as follows:

— Appropriate RMB11.6 million (10% of the net profit of the Company) to surplus reserve;

— Appropriate RMB20.4 million to general reserve.

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

(ii) At the Annual General Meeting of shareholders held on 30 June 2016, the shareholders approved the following profit appropriations for the year ended 31 December 2015:

— 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.

(f) Distributable reserves

At 31 December 2015 and 31 December 2016, 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 RMB174.5 million and RMB93.4 million respectively.

(g) Capital management

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

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

There were no changes in the Group's approach to capital management during the years ended 31 December 2015 and 2016.

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

Credit risk arising from micro-finance business

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

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

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

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

When a certain number of clients undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to a particular industry or geographic location. As the Group mainly conducts micro-finance business in Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions. At 31 December 2016, 1.96% (2015: 2.13%) and 7.94% (2015: 9.53%) 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 2016					
	Overdue/ Repayment on demand *RMB'000*	**Within three months** *RMB'000*	**Between three months and one year** *RMB'000*	**Between one year and five years** *RMB'000*	**Total** *RMB'000*	**Carrying amount** *RMB'000*
Assets						
Cash and cash equivalents	**29,208**	**—**	**—**	**—**	**29,208**	**29,208**
Restricted deposits	**—**	**—**	**15,293**	**—**	**15,293**	**15,000**
Interest receivables	**216**	**13,384**	**5,433**	**—**	**19,033**	**19,033**
Loans and advances to customers	**31,037**	**527,167**	**1,459,963**	**21,424**	**2,039,591**	**1,807,164**
Avaliable-for-sale financial assets	**72,700**	**—**	**—**	**—**	**72,700**	**72,700**
Other assets	**232**	**—**	**—**	**—**	**232**	**232**
Total	**133,393**	**540,551**	**1,480,689**	**21,424**	**2,176,057**	**1,943,337**
Liabilities						
Interest-bearing borrowings	**—**	**(3,439)**	**(256,433)**	**—**	**(259,872)**	**(250,000)**
Accruals and other payables	**(16,725)**	**(697)**	**(6,830)**	**—**	**(24,252)**	**(24,252)**
Debt securities issued	**—**	**(154,537)**	**(128,715)**	**—**	**(283,252)**	**(278,283)**
Total	**(16,725)**	**(158,673)**	**(391,978)**	**—**	**(567,376)**	**(552,535)**
	116,668	**381,878**	**1,088,711**	**21,424**	**1,608,681**	**1,390,802**

	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

(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 2016 *RMB'000*	31 December 2015 *RMB'000*
Fixed interest rate		
Financial assets		
— Restricted deposits	**15,000**	—
— Loans and advances to customers	**1,807,164**	1,382,415
Financial liabilities		
— Interest-bearing borrowings	**(250,000)**	(100,000)
— Debt securities issued	**(278,283)**	—
Net	**1,293,881**	1,282,415
Variable interest rate		
Financial assets		
— Cash and cash equivalent	**23,152**	82,398
— Available-for-sale financial assets	**72,700**	—
Net	**95,852**	82,398
Net fixed rate borrowings as a percentage of total borrowings	**100.00%**	100.00%

(ii) *Sensitivity analysis*

At 31 December 2016 and 31 December 2015, 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 RMB359,000 and RMB309,000 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.

Fair value hierarchy:

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

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

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

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2015 and 31 December 2016.

24 COMMITMENTS

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

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
Within 1 year	**250**	714
After 1 year but within 5 years	**37**	183
Total	**287**	897

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.

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	2016	2015
	RMB'000	*RMB'000*
Key management personnel remuneration *(Notes (i))*	**3,163**	2,842
Operating lease charges *(Notes (ii))*	**515**	515
Receiving guarantees for bank loans	**—**	50,000
Receiving guarantees for borrowing under repurchase agreement *(Notes (iii))*	**150,000**	—
Receiving guarantees for debt securities issued *(Notes (iv))*	**425,000**	—
Releasing guarantees for bank loans	**(50,000)**	—
Releasing guarantees for debt securities issued	**(150,000)**	—

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 for borrowing under repurchase agreement in 2016 were provided by the Chairman of the Company without charges, which will be due on 18 August 2017.

(iv) The guarantees for debt securities issued in 2016 were provided by the Chairman of the Company without charges, which will be due during the period from 4 January 2017 to 23 June 2017.

(b) Balances with key management personnel

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Receiving guarantees for bank loans	**—**	50,000
Receiving guarantees for borrowing under repurchase agreement	**150,000**	—
Receiving guarantees for debt securities issued	**275,000**	—

(c) Other related party transactions

	2016 *RMB'000*	2015 *RMB'000*
Operating lease charges	**110**	110
Receiving guarantees for bank loans	**250,000**	100,000
Receiving guarantees for borrowing under repurchase agreement	**150,000**	—
Receiving guarantees for debt securities issued	**425,000**	—
Releasing guarantees for bank loans	**(150,000)**	(175,000)
Releasing guarantees for debt securities issued	**(150,000)**	—

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

(d) Balances with other related parties

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Guarantees received for bank loans *(Note)*	**100,000**	100,000
Guarantees received for borrowing under repurchase agreement	**150,000**	—
Guarantees received for debt securities issued	**275,000**	—

Note: The guarantees for bank loans in 2016 were provided by the related parties of the Group without charges, which will be due on 17 August 2017.

26 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) Impairment of receivables and loans and advances

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

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

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

(b) Impairment of long-lived assets

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

(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.

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**31 December 2016**	31 December 2015
		RMB'000	*RMB'000*
Assets			
Cash and cash equivalents		**19,742**	71,849
Restricted deposits		**15,000**	—
Interests receivables		**17,039**	13,414
Loans and advances to customers		**1,458,603**	1,160,708
Intangible assets		**36**	—
Fixed assets		**17,278**	3,436
Investments in subsidiary		**371,100**	241,134
Deferred tax assets		**13,206**	11,892
Other assets		**31,120**	835
Total assets		**1,943,124**	1,503,268
Liabilities			
Interest-bearing borrowings		**250,000**	100,000
Accruals and other payables		**82,944**	6,366
Debt securities issued		**278,283**	—
Current taxation		**3,788**	19,728
Total liabilities		**615,015**	126,094
NET ASSETS		**1,328,109**	1,377,174
CAPITAL AND RESERVES	*22*		
Share capital		**1,180,000**	1,180,000
Reserves		**148,109**	197,174
TOTAL EQUITY		**1,328,109**	1,377,174

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	**1 January 2017**
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	**1 January 2017**
HKFRS 9, *Financial instruments*	**1 January 2018**
HKFRS 15, *Revenue from contracts with customers*	**1 January 2018**
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	**1 January 2018**
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.

29 SUBSEQUENT EVENTS

The Group issued fixed rate corporate bonds in January 2017 with an aggregated nominal value of RMB175.0 million. The terms of these bonds are six months and the bonds bear the coupon rate at 6% per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

We commenced our nationwide business in the People's Republic of China (the "**PRC**"), and our offline business is mainly conducted in Deqing County, Huzhou City. Deqing has experienced robust economic development and growth in recent years, and is placed among the nation's top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). A number of new high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which has helped cultivating the local financial services 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 2016, the number of microfinance companies in Zhejiang reached 341. The average registered capital per microfinance company amounted to RMB191 million. The average loan balance per microfinance company amounted to RMB213 million.

The microfinance industry in Deqing has also seen rapid growth. As of 31 December 2016, apart from the Group, there were three microfinance companies in Deqing, and as of 31 December 2016, the accumulated aggregate amount of loans granted reached RMB5,182.7 million, of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 66.8%; the loan balance as of 31 December 2016 reached RMB3,043.8 million, of which the loan balance of the Group accounted for approximately 62.1%.

Business Overview

As at 31 December 2016, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Financial Work Office of the People's Government of Zhejiang Province. We are dedicated to providing financing solutions and loan services to customers with flexible terms through quick and comprehensive loan assessment and approval processes.

Our key customers primarily consist of customers engaged in agricultural business and/or rural development activities, and/or customers residing in rural areas ("**AFR (三農)**"), small and medium enterprises (the "**SMEs**"), micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products as well as customers of internet micro-loan which we cultivate together with other trustworthy internet enterprises.

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

In 2016, we collaborated with trustworthy internet enterprises to jointly develop our internet micro-finance business, which offers pure credit-based loans of RMB2,000 each. As of 31 December 2016, we have developed over 10,000 customers in total through the above business.

Due to the expansion of our business and strong demand for financing by our customers, our gross loans balance increased from RMB1,455.4 million as at 31 December 2015 to RMB1,889.5 million as at 31 December 2016.

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	
	2016	2015
Registered capital (RMB'000)	**1,180,000**	1,180,000
Gross outstanding loans and advances to customers (RMB'000)	**1,889,520**	1,455,369
Leverage ratio(1)	**1.60**	1.23

Note:

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

For the years ended 31 December 2015 and 2016, our average interest rates for loans were 15.6% and 15.2%, respectively. The decrease in our average loan interest rate during the aforesaid period was mainly resulting from the imposition of VAT on our reported interest income in lieu of business tax since 1 May 2016 in compliance with the Circular on Comprehensive Promotion of the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (Cai Shui [2016] No. 36) (《關於全面推開營業税改徵增值税試點的通知》(財税[2016]36號)) issued by the Ministry of Finance and the State Administration of Taxation ("**Circular No. 36**"), which resulted in a lower reported interest income as our interest income has since been recognized net of applicable VAT.

We primarily served SMEs and micro enterprises, individuals in the agricultural, industrial and service sectors in Huzhou and Hangzhou and nationwide online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products and customers of internet micro-loans. For the years ended 31 December 2015 and 2016, we served over 1,545 and 15,615 customers, respectively. During the aforesaid period, our loan customers increased dramatically primarily as a result of our joint development of internet micro-finance business with trustworthy internet enterprises, which have accumulated numerous customers.

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

	As of 31 December	
	2016	2015
Up to RMB500,000	**14,714**	1,777
Over RMB500,000 to RMB1 million (inclusive)	**177**	61
Over RMB1 million to RMB5 million (inclusive)	**305**	207
Over RMB5 million	**43**	60
Total number of outstanding loans and advances to customers	**15,239**	2,105

As at 31 December 2015 and 2016, 87.3% and 97.7% of our loan contracts were of loan amount of up to RMB1 million, respectively. The proportion of loans with amount up to RMB1 million increased drastically during the aforementioned period, primarily as a result of our joint development of internet micro-finance business with other trustworthy internet enterprises, which offers loans of RMB2,000 each.

For the years ended 31 December 2015 and 2016, the total amount of loans we granted were RMB2,427.2 million and RMB3,461.5 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 2016		As of 31 December 2015	
	RMB'000	*%*	*RMB'000*	*%*
Unsecured loans[(1)]	**170,888**	**9.0**	91,144	6.3
Guaranteed loans	**1,651,250**	**87.4**	1,283,653	88.2
Collateralized loans	**59,602**	**3.2**	79,972	5.5
Pledged loans	**7,780**	**0.4**	600	0.0
Total gross outstanding loans and advances to customers	**1,889,520**	**100.0**	1,455,369	100.0

Note:

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

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

	As at 31 December			
	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
Due within three months	**49,318**	**2.6**	13,340	0.9
Due between three months and six months	**484,343**	**25.6**	156,371	10.8
Due between six months and one year	**1,319,864**	**69.9**	1,259,117	86.5
Due more than one year	**35,995**	**1.9**	26,541	1.8
Total gross outstanding loans and advances to customers	**1,889,520**	**100.0**	1,455,369	100.0

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

	As at 31 December			
	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
Up to RMB500,000	**341,430**	**18.1**	169,961	11.7
Over RMB500,000 to RMB1 million (inclusive)	**166,225**	**8.8**	55,320	3.8
Over RMB1 million to RMB5 million (inclusive)	**884,865**	**46.8**	601,488	41.3
Over RMB5 million	**497,000**	**26.3**	628,600	43.2
Total gross outstanding loans and advances to customers	**1,889,520**	**100.0**	1,455,369	100.0

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

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

	As of 31 December			
	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
Normal	**1,757,647**	**93.0**	1,261,417	86.7
Special mention	**104,888**	**5.6**	158,880	10.9
Substandard	**6,567**	**0.3**	18,748	1.3
Doubtful	**15,388**	**0.8**	12,595	0.9
Loss	**5,030**	**0.3**	3,729	0.2
Total gross outstanding loans and advances to customers	**1,889,520**	**100.0**	1,455,369	100.0

For "normal" and "special mention" loans, given that they are not impaired, we make collective assessment based primarily on factors including prevailing general market 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	
	2016	2015
	RMB'000	*RMB'000*
Impaired loan ratio(1)	**1.4%**	2.4%
Balance of impaired loans	**26,985**	35,072
Gross outstanding loans and advances to customers	**1,889,520**	1,455,369
Provision coverage ratio(2)	**305%**	208%
Allowances for impairment losses(3)	**82,356**	72,954
Balance of impaired loans	**26,985**	35,072
Provision for impairment losses ratio(4)	**4.4%**	5.0%
Balance of overdue loans	**31,037**	15,742
Gross outstanding loans and advances to customers	**1,889,520**	1,455,369
Overdue loan ratio(5)	**1.64%**	1.08%

Notes:

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

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

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

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

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

Our impaired loans decreased slightly from RMB35.1 million as of 31 December 2015 to RMB27.0 million as of 31 December 2016, which was mainly due to our recovery of certain outstanding substandard loans as of 31 December 2015 in the current period.

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

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
Unsecured loans	**12,253**	373
Guaranteed loans	**9,897**	5,102
Collateralized loans	**8,887**	10,267
Total overdue loans	**31,037**	15,742

We had overdue loans of RMB15.7 million and RMB31.0 million as of 31 December 2015 and 31 December 2016, respectively, accounting for 1.08% and 1.64% of our gross loan balance as of the same dates. As at 20 March 2017, approximately RMB1.23 million among the overdue loans as of 31 December 2016 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:

	2016	2015
	RMB'000	*RMB'000*
Interest income from		
Loans and advances to customers	**242,370**	210,732
Cash at banks	**990**	1,396
Total interest income	**243,360**	212,128
Interest and commission expenses from		
Borrowings from banks	**(11,791)**	(8,105)
Borrowings from non-bank institutions	**(12,277)**	—
Bank charges	**(71)**	(72)
Total interest and commission expenses	**(24,139)**	(8,177)
Net interest income	**219,221**	203,951

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rate that we charge on loans to our customers. Our balance of loans increased during the reporting period, generally in line with the size of our capital base, which is in turn affected by the size of our registered capital and financing. For the years ended 31 December 2015 and 2016, our aggregate loan balance was RMB1,455.4 million and RMB1,889.5 million respectively; while for the years ended 31 December 2015 and 2016, our average interest rates for loans were 15.6% and 15.2%, respectively. The decrease in our average loan interest rate during the aforesaid period was mainly resulting from the imposition of VAT on our reported interest income in lieu of business tax in compliance with Circular No. 36, which resulted in a lower reported interest income as our interest income has since been recognized net of applicable VAT.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions as well as bank charges, were RMB8.2 million and RMB24.1 million for the years ended 31 December 2015 and 2016, respectively. We incur interest expenses primarily on the interest payment on bank loans and non-bank institutions borrowings, including debt securities issued payables and financing under the transfer and repurchase agreement, which were principally applied to expand our loan business.

Our balance of bank loans amounted to RMB100.0 million and RMB100.0 million as at 31 December 2015 and 2016, respectively. As at 31 December 2016, our carrying balance of debt securities issued was RMB278.3 million. Our outstanding balance of financing under our transfer and repurchase financing agreement amounted to RMB150.0 million as of 31 December 2016. During the reporting period, our interest expense increased, which was mainly attributed to the increase in interest-bearing borrowings.

Our net interest income for the years ended 31 December 2015 and 2016 were RMB204.0 million and RMB219.2 million, respectively.

Other income

Our other income for the years ended 31 December 2015 and 2016 were RMB41.3 million and RMB22.9 million, respectively. Our other income mainly consists of government grants. Our other income in the aforesaid period decreased, which was mainly due to the inclusion of listing grants from Deqing County People's Government amounting to RMB13.0 million in other income of the Company in 2015.

Impairment losses

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

For the years ended 31 December 2015 and 2016, our impairment losses were RMB6.0 million and RMB0.8 million, respectively.

Administrative expenses

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

	2016	2015
	RMB'000	*RMB'000*
Business tax and surcharge	**4,799**	11,431
Staff costs	**12,087**	8,209
Office expenditures and travel expenses	**3,759**	3,696
Operating lease charges	**882**	818
Depreciation and amortization expenses	**1,925**	1,179
Consulting and professional service fees	**9,732**	7,459
Business development expenses	**1,099**	947
Advertising expenses	**2,985**	2,827
Others	**3,106**	5,780
Total administrative expenses	**40,374**	42,346

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 2015 and 2016, our business tax and surcharge were RMB11.4 million and RMB4.8 million, respectively, accounting for 27.0% and 11.9% of our total administrative expenses, respectively. Our business tax and surcharge decreased during the aforesaid period, which was primarily as a result of the imposition of VAT on our reported interest income in lieu of business tax under Circular No. 36, where we were no longer required to pay business tax since 1 May 2016.

Our staff costs accounted for 19.4% and 29.9% of the total administrative expenses for the years ended 31 December 2015 and 2016, respectively. Our staff costs increased from RMB8.2 million for year 2015 to RMB12.1 million for year 2016, which was mainly attributable to: (i) additional employees we hired in the second half of 2015 and first half of 2016, including new senior management and customer relationship managers, due to the expansion of our loan business; (ii) employment of the existing staff from Jinhui Micro-finance which we acquired in July 2015; and (iii) employment of the existing staff from Xingyao Micro-finance which we acquired in November 2016.

Income tax

Our income taxes for the years ended 31 December 2015 and 2016 were RMB50.4 million and RMB50.3 million, respectively, and our effective tax rates were 25.6% and 25.1%, respectively.

Profit for the year

As a result of the foregoing, we had profit of RMB146.5 million and RMB150.5 million for the years ended 31 December 2015 and 2016, respectively.

Liquidity and capital resources

Our working capital and other capital requirements are mainly financed by equity investments from the shareholders of the Company (the "**Shareholders**"), bank loans, debt securities issued and cash flows from operations. Our working capital and capital requirements are primarily related to extending loans and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity level that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than normal bank loans we obtain from commercial banks, issuance of bond financing on the Zhejiang Equities Exchange Centre (浙江省股權交易中心) and income rights transfer and repurchase financing which we may consider, we do not expect to have any material external debt financing plan in the short term.

Working Capital Management

Cash flows

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

	2016	2015
	RMB'000	*RMB'000*
Cash and cash equivalents at the beginning of year	**82,572**	24,488
Net cash (used in)/generated from operating activities	**(44,044)**	93,056
Net cash used in investing activities	**(207,722)**	(241,287)
Net cash generated from financing activities	**198,727**	206,316
Net (decrease)/increase in cash and cash equivalents	**(53,039)**	58,085
Effect on the change of exchange rate	**(325)**	(1)
Cash and cash equivalents at the end of year	**29,208**	82,572

Net cash (used in)/generated from 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.

We account equity contributions from Shareholders, bank loans and debt securities issued as cash generated from financing activities, while we utilize such cash for granting new loans to customers and classify it as cash used in operating activities and, as a result, we typically account it as net cash used in operating activities. Due to the loan granting nature of our business and the accounting treatment that such deployment of cash is accounted for as operating cash outflow, we typically experience net cash outflows from operating activities when we expand our loan business as a result of such accounting treatment, which is generally in line with the industry norm.

Net cash outflow generated from operating activities in 2016 was RMB44.0 million. Our net cash used in operating activities reflect: (i) our profit before tax of RMB200.9 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB0.8 million, depreciation and amortization of RMB1.9 million, interest expenses of RMB24.1 million, investment income of RMB1.6 million and exchange losses of RMB0.3 million; (ii) the effect of changes in working capital, primarily including an increase in total loans and advances to customers of RMB209.8 million, an increase in interest receivable and other assets of RMB3.3 million, and a decrease in accruals and other payables of RMB1.6 million; and (iii) PRC income tax paid of RMB55.8 million.

Net cash used in investing activities

As of 2016, our net cash outflow from investing activities was RMB207.7 million. Our net cash outflow for investing activities mainly consisted of: (i) net amount paid for purchase of wealth management products after deducting redemption of RMB72.7 million, which was partially offset by income of RMB1.6 million received from the wealth management products; (ii) investment paid for the acquisition of Xingyao Micro-finance net of cash and cash equivalents on book at the acquisition of Xingyao Micro-finance amounting to RMB118.0 million; (iii) unpaid original shareholders' dividend prior to the payment for the acquisition of Xingyao Micro-finance of RMB2.0 million; and (iv) payment for the purchase of real estates, equipment and repairment of RMB16.6 million.

Net cash generated from financing activities

As of 2016, our net cash generated from financing activities was RMB198.7 million. Our net cash inflow generated from financing activities consisted of: (i) the receipt of RMB425.0 million from financing by issue of debt; (ii) the net receipt of RMB135.0 million from financing through transfer and repurchase agreement with Chang An Assets Management Limited* (長安財富資產管理有限公司) after deducting the pledge of bank certificates of deposit; and (iii) the receipt of RMB150.0 million from the financing of bank loans. Our net cash outflow used in financing activities consisted of: (i) repayment of debt securities issued amounting to RMB175.0 million; (ii) repayment of financing from bank loans amounting to RMB150.0 million; (iii) payment of interest on borrowings of RMB21.1 million; and (iv) payment of distribution of cash dividend of RMB165.2 million.

Cash management

As our business primarily relies on our available cash, we normally set aside a sufficient amount of cash for meeting general working capital needs, such as administrative expenses and payment of interests on bank loans, and use the remainder for granting loans to our customers. As at 31 December 2015 and 2016, total cash and cash equivalents amounted to RMB82.6 million and RMB29.2 million, respectively.

Cash and cash equivalents

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

	As of 31 December	
Items	**2016**	2015
	RMB'000	*RMB'000*
Cash in hand	**2**	2
Cash at banks	**23,152**	82,398
Others	**6,054**	172
Cash and cash equivalents in the cash flow statement	**29,208**	82,572

The decrease in our cash and cash equivalents from RMB82.6 million as of 31 December 2015 to RMB29.2 million as of 31 December 2016 was primarily due to the purchase of wealth management products with a view to increase capital utilization rate.

Restricted deposits

Our restricted deposits system is the bank deposit of RMB15.0 million for financing under the transfer and repurchase agreement.

Interest receivables

Our interest receivables as of 31 December 2015 and 2016 were RMB14.9 million and RMB19.0 million, respectively. The increase in our interest receivables was mainly in line with the increase in our outstanding loans, which was primarily resulted 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	
	2016	2015
	RMB'000	*RMB'000*
Corporate loans[1]	**547,212**	708,934
Retail loans	**1,024,138**	643,174
Internet loans	**318,170**	103,261
Gross loans and advances to customers	**1,889,520**	1,455,369
Less: allowances for impairment losses		
— Collectively assessed	**(64,884)**	(54,932)
— Individually assessed	**(17,472)**	(18,022)
Total allowances for impairment losses	**(82,356)**	(72,954)
Net loans and advances to customers	**1,807,164**	1,382,415

Note:

(1) Include loans to sole proprietors.

As at 31 December 2016, our net loans and advances to customers increased to RMB1,807.2 million, which was mainly resulting from our increased business scale and the consolidation of the loan portfolio of Xingyao Micro-finance, which was acquired in 2016.

We focus on providing short-term loans to minimize our risk exposure and, as a result, a substantial majority of our loans and advances to customers have a term of less than one year.

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

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
Due within three months	**49,318**	13,340
Due between three months and six months	**484,343**	156,371
Due between six months and one year	**1,319,864**	1,259,117
Due more than one year	**35,995**	26,541
Gross loans and advances to customers	**1,889,520**	1,455,369

We had overdue loans of RMB15.7 million and RMB31.0 million as at 31 December 2015 and 2016, respectively, accounting for 1.08% and 1.64% of our gross loans and advances to customers as of the same dates.

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

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
Unsecured loans(1)	**170,888**	91,144
Guaranteed loans	**1,651,250**	1,283,653
Collateralized loans	**59,602**	79,972
Pledged loans	**7,780**	600
Gross loans and advances to customers	**1,889,520**	1,455,369

Note:

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

The majority of our loans were guaranteed loans, which accounted for 88.2% and 87.4% of our gross loans and advances to customers as at 31 December 2015 and 2016, respectively.

Other Assets

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

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
Prepaid income tax[1]	**205**	1,808
Prepayment	**31,222**	1,693
Others	**232**	97
Total other assets	**31,659**	3,598

Note:

(1) Prepaid income tax represents the over-paid income tax by Jinhui Micro-finance for the years ended 31 December 2015 and 2016.

Our other assets during the aforesaid period increased by RMB28.1 million from RMB3.6 million as of 31 December 2015 to RMB31.7 million as of 31 December 2016, which was mainly attributable to the fact that we settled the placement debt (fourth tranche-1) for micro-loan company of RMB25.8 million in advance of its due date on 4 January 2017.

Accruals and other payables

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

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
Value added tax payable	**978**	—
Business tax and surcharges and other taxation payable	**150**	1,750
Accrued staff costs	**3,453**	1,748
Interest payable	**503**	61
Acquisition consideration payable *(Note 14)*	**9,966**	—
Dividends payable[1]	**5,917**	—
Other payables	**7,866**	3,690
Total accruals and other payables	**28,833**	7,249

Note:

(1) Dividends payable refers to dividends payable to original shareholders to be paid by Xingyao Micro-Finance prior to the acquisition.

The increase in our accruals and other payables during the aforesaid period was mainly due to: (i) the balance of consideration for the acquisition of Xingyao Micro-Finance payable by the Company as at 31 December 2016; and (ii) dividends payable to original shareholders to be paid by a subsidiary, Xingyao Micro-Finance, prior to the acquisition as at 31 December 2016.

Current tax liabilities

Our current tax liabilities, which represent payables of our income tax, were RMB19.7 million and RMB11.6 million, respectively, as of 31 December 2015 and 2016.

Capital commitments

We did not have any capital commitment as of 31 December 2016.

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

	As of 31 December	
	2016	2015
Return on weighted average equity	**10.6%**	11.3%
Average return on assets[1]	**8.5%**	10.8%

Note:

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

The slight decrease in our weighted average return on equity and average return on assets was mainly due to the fact that other revenues of the Company for year 2015 included listing grants of RMB13.0 million and exchange gains of RMB6.2 million, while there was no such gain for year 2016.

	As of 31 December	
	2016	2015
Gearing ratio[1]	**35.4%**	1.3%

Note:

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

Our gearing ratio grew from 1.3% as at 31 December 2015 to 35.4% as at 31 December 2016, which was mainly attributable to the expansion of financing leverage driven by our strong demand for loans. As of 31 December 2016, we had balance from debt securities issued of RMB278.3 million, and our financing balance under our transfer and repurchase agreement amounted to RMB150.0 million.

Related party transactions

For the year ended 31 December 2016, we leased a property from Mr. Yu Yin, an executive Director and the chairman of the Board, and the rental payable was RMB515,000; we leased a property from the younger sister of Mr. Yu Yin and the rental payable was RMB110,000. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and were fully exempted from Shareholders' approval, annual review and all disclosure requirements.

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

During the reporting period, Deqing Puhua Energy Company Limited and other related parties had guaranteed some of our bank loans. The balance of bank loans amounted to RMB100.0 million as at 31 December 2016. Such related party transaction constituted the continuing connected transaction under Chapter 14A of the Listing Rules and was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

During the reporting period, Mr. Yu Yin, our executive Director and the chairman of the Board, and other related parties had provided guarantee for our issuance of debts to the platform of Zhejiang Province Equities Exchange Centre (浙江省股權交易中心). The carrying balance of debt securities issued amounted to RMB278.3 million as at 31 December 2016. Such related party transaction constituted the continuing connected transaction under Chapter 14A of the Listing Rules and was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

During the reporting period, Mr. Yu Yin, our executive Director and the chairman of the Board, and other related parties had provided guarantee for the financing under our transfer and repurchase agreement with Chang An Assets Management Limited* (長安財富資產管理有限公司). The balance of financing amounted to RMB150.0 million as at 31 December 2016. Such related party transaction constituted the continuing connected transaction under Chapter 14A of the Listing Rules and was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

Indebtedness

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

Items	As of 31 December **2016** *RMB'000*	2015 *RMB'000*
Bank loans	**100,000**	100,000
Debt securities issued	**278,283**	—
Borrowing from third parties under the transfer and repurchase agreement	**150,000**	—
Total	**528,283**	100,000

Our interest-bearing borrowings were the borrowings required for our business expansion.

OFF-BALANCE SHEET ARRANGEMENTS

As of 31 December 2016, we did not have any off-balance sheet arrangements (2015: nil).

EMPLOYMENT AND EMOLUMENTS

As of 31 December 2016, the Company had 118 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid, which are commensurate with the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance, etc.

PROSPECTS

With the establishment of China Microfinance Companies Association (中國小額貸款公司協會) and promulgation 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 being increasingly recognized by 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 new high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, thus help cultivating local financial services 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 will continue to enjoy economic stability and provide us with a relatively conducive market environment to grow our market share as we continue to introduce innovative loan products, broaden business channels, enhance our market penetration and increase our competitive advantages by utilizing the advantage of our capital base.

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

In November 2016, we acquired Xingyao Micro-finance situated at Hangzhou City, Zhejiang Province, which expanded our offline business coverage to Hangzhou City and further strengthened our competitive advantage.

Besides, on 13 April 2015, the Financial Work Office of the People's Government of Zhejiang Province (浙江省人民政府金融工作辦公室) has granted the approval to the Company for cooperation with micro e-commerce online money lending platforms (the "**Cooperation**"), which enables the Company to provide loans in aggregate representing not more than 30% of the Company's funding available for the granting of loans, to online retailers engaging in the business of lifestyle products, agricultural products, cultural supplies and industrial goods. The aggregate amount of loans granted to any of these online retailers shall not exceed RMB500,000, and the relevant annualized interest rate shall not exceed 15%. The Cooperation marks a positive development of the Company and the official commencement of our internet finance business. 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 and break through the geographical scope of the Company's business.

In January 2016, the Company commenced a strategic cooperation with Yuanbaopu (元寶鋪), a finance big data service platform, to establish an exclusive partnership within Zhejiang Province, Jiangsu Province and Shanghai City with focus on the development of sole 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, customers referral, products operation models, research and development of new products, enhancement of brand competitiveness and identification of strategic targets, etc.

On this basis, the Company collaborated with other trustworthy internet enterprises to jointly develop the internet microfinance business, and have currently accumulated over 10,000 customers.

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.

DISCLOSEABLE TRANSACTION

On 15 August 2016, the Company entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") with each of Hangzhou Qian Chao Chemical Co., Ltd* (杭州錢潮化工有限公司), Hangzhou Yu Bao Electric Co., Ltd* (杭州浴寶電器有限公司), Hangzhou Xin Ye Zhi Gai Co., Ltd* (杭州欣業制蓋有限公司), Hangzhou Xing Yao Electric Power Engineering Co., Ltd* (杭州興耀電力工程有限公司), Hangzhou Bo Fan Technology Co., Ltd* (杭州博凡科技有限公司), Lin An City International Trade Building Co., Ltd* (臨安市國貿大廈有限公司), Wang Xinyi* (王新義), and four other individual shareholders (together, the "**Vendors**") and Hangzhou Xing Yao Construction Group Co., Ltd* (杭州興耀建設集團有限公司) (being one of the non-selling shareholders of Xingyao Micro-finance and the receiving agent of the Vendors).

Pursuant to the Sale and Purchase Agreement, the Company conditionally agreed to acquire and the Vendors each conditionally agreed to sell, in aggregate, the 60.00% equity interests in Xingyao Micro-finance held by the Vendors for a maximum consideration of RMB133.68 million (the "**Acquisition**"), which was arrived at after arm's length negotiations between the Company and the Vendors with reference to the net asset value of Xingyao Micro-finance as at 31 March 2016.

Xingyao Micro-finance is a licensed micro-finance company established in Hangzhou, Zhejiang Province, the PRC with an approved business scope including the provision of micro and small loans and development, management and financial advisory services to small enterprises in the High-Tech (Binjiang) Administrative District. Upon completion of the proposed acquisition, Xingyao Micro-finance will become a 60% non-wholly owned subsidiary of the Company, and its financial results will be consolidated into that of the Company. The Acquisition was completed on 17 November 2016 and the consideration paid was approximately RMB130.0 million.

CORPORATE GOVERNANCE

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

The Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provisions**") of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2016, 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 full compliance with the relevant standards stipulated in the Model Code throughout the year ended 31 December 2016.

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

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

The Company has not purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

PROPOSED FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the Shareholder's entitlement to attend and vote at the forthcoming annual general meeting of the Company (the "**AGM**"), the H Share register of members of the Company will be closed from Wednesday, 31 May 2017 to Friday, 30 June 2017, both days inclusive, during which period no share transfers will be registered. The holders of shares whose names appear on the register of members of the Company on 30 June 2017 will be entitled to attend and vote at the AGM. 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, 29 May 2017.

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 has an interest in a business which competes or may compete with the business of the Company.

EVENTS AFTER THE REPORTING PERIOD

The Group issued fixed rate corporate bonds in January 2017 with an aggregate nominal value of RMB175.0 million. The terms of these bonds are six months and the bonds bear an annualized coupon rate at 6%.

On 9 March 2017, the Board announced that it had approved a proposal of issuance of domestic corporate bonds in the PRC with an aggregate amount of no more than RMB300.0 million (inclusive). The interest rate will be determined by reference to the interest rate of private bond issue in the market under the same conditions over the same period.

For more details, please refer to the announcement and the circular of the Company, dated 9 March 2017 and 13 March 2017, respectively. The above proposed issuance of the domestic corporate bonds is subject to the shareholders' approval in an extraordinary general meeting of the Company to be held on 28 April 2017 and the 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 Friday, 30 June 2017. Notice of the AGM will be issued and disseminated to the Shareholders in due course.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, risk management and internal control systems and financial report matters including the review of the Group's annual results for the year ended 31 December 2016. The annual financial statements of the Group have been audited by the independent auditors of the Company, KPMG.

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 2016 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as the Shareholders, customers, business associates and other professional parties for their continuous support to the Group throughout the year.

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

Hong Kong, 20 March 2017

As at the date of this announcement, the executive Directors are Mr. YU Yin, Mr. ZHENG Xuegen, Mr. YANG Sheng 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*