

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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

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

(Stock Code: 6866)

2017 ANNUAL RESULTS ANNOUNCEMENT

The board (the “**Board**”) of directors (the “**Directors**”) of 佐力科創小額貸款股份有限公司 (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 2017, together with comparative figures for the corresponding period, 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 (the “**Audit Committee**”) 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 2017

(Expressed in Renminbi (“**RMB**”) ’000, unless otherwise stated)

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

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

(Expressed in RMB'000, unless otherwise stated)

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

The accompanying notes form part of the financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Expressed in RMB'000, unless otherwise stated)

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

The accompanying notes form part of the financial statements.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**
(Expressed in RMB'000, unless otherwise stated)

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

The accompanying notes form part of the financial statements.

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 2017 comprise the Company and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for the available-for-sale financial assets (see Note 1(i)).

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

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

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

(c) Changes in accounting policies

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

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

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

(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(I)).

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(I)).

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

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are 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) Intangible assets (other than goodwill)

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

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

— computer software	5 years
---------------------	---------

The period and method of amortisation are reviewed annually.

(h) Leased assets

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

Operating lease charges

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

(i) Financial instruments

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

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

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

Financial assets and financial liabilities are categorized as follows:

— *Loans and receivables*

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

- (a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;
- (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

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

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

— *Available-for-sale financial assets*

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

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

— *Other financial liabilities*

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

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

(ii) *Impairment of financial assets*

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

Objective evidence includes the following loss event:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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.

(j) *Interest-bearing borrowings*

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

(k) *Cash and cash equivalents*

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

(l) *Impairment of non-financial assets*

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

- fixed assets;
- intangible assets;

- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

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

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

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

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

(m) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

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

(n) Income tax

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

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

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

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

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

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

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

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

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

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

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Value-added-tax (“VAT”)

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

(p) Provisions and contingent liabilities

(i) *Contingent liabilities assumed in business combinations*

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

(ii) *Other provisions and contingent liabilities*

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

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

(q) Revenue recognition

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

(i) *Interest income*

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

(ii) Government grants

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

(r) Translation of foreign currencies

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

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

(s) Borrowing costs

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

(t) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

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

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

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

(u) Segment reporting

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

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

2 NET INTEREST INCOME

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

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

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's net interest income during the years ended 31 December 2017 and 2016. Details of concentration of credit risk are set out in Note 23(a).

For the years ended 31 December 2017 and 2016, the directors have determined that the Group has only one single business component/reportable segment as the Group is principally engaged in providing lending services which is the basis to allocate resources and assess performance of the Group.

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

3 OTHER NET INCOME

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

4 IMPAIRMENT LOSSES

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

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

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

The Group is required to participate in the pension scheme organised by the Zhejiang Province Government 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

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

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

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

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

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

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

Notes:

- (i) The Company and the subsidiaries of the Group incorporated in the PRC are subject to PRC income tax at the statutory tax rate of 25% for the year ended 31 December 2017 (2016: 25%).
- (ii) No provision for Hong Kong profit tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong profit tax for the year ended 31 December 2017 (2016: nil).

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2017			
	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Chairman				
Yu Yin (俞寅)	6	361	100	467
Executive directors				
Zheng Xuegen (鄭學根)	6	241	100	347
Hu Haifeng (胡海峰)	6	301	100	407
Yang Sheng (楊晟)	6	241	100	347
Non-executive director				
Pan Zhongmin (潘忠敏)	6	—	—	6
Independent non-executive directors				
Ho Yuk Ming (何育明)	100	—	—	100
Jin Xuejun (金雪軍)	100	—	—	100
Huang Lianxi (黃廉熙)	100	—	—	100
Supervisors				
Shen Yamin (沈婭敏)	6	85	54	145
Dai Shengqing (戴勝慶)	6	—	—	6
Wang Peijun (王培軍)	6	—	—	6
	348	1,229	454	2,031

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

There were no amounts paid during the years ended 31 December 2017 and 2016 to the directors and supervisors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join. There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2016.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Salaries and other emoluments	242	240
Discretionary bonuses	<u>54</u>	<u>52</u>
	<u>296</u>	<u>292</u>

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

	2017 <i>Number of individuals</i>	2016 <i>Number of individuals</i>
<i>Hong Kong dollar</i>		
Nil–1,000,000	1	1
1,000,001–1,500,000	—	—

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2017 and 2016.

9 EARNINGS PER SHARE

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

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

(a) Weighted average number of ordinary shares

	2017 <i>'000</i>	2016 <i>'000</i>
Issued ordinary shares at 1 January	<u>1,180,000</u>	<u>1,180,000</u>
Weighted average number of ordinary shares at 31 December	<u>1,180,000</u>	<u>1,180,000</u>

There were no dilutive potential ordinary shares during the years ended 31 December 2017 and 2016, and therefore, diluted earnings per share are the same as the basic earnings per share.

10 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Cash in hand	1	2
Cash at banks	27,223	23,152
Others	<u>10,011</u>	<u>6,054</u>
Cash and cash equivalents in the cash flow statement	<u>37,235</u>	<u>29,208</u>

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

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

(c) **Reconciliation of liabilities arising from financing activities:**

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

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

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

(b) Analysed by type of collateral

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

(c) Analysed by industry sector

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

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

	31 December 2017				
	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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unsecured loans	2,745	2,827	6,472	9,426	21,470
Guaranteed loans	1,619	635	4,335	4,790	11,379
Collateralized loans	<u>—</u>	<u>—</u>	<u>1,655</u>	<u>29</u>	<u>1,684</u>
Total	<u>4,364</u>	<u>3,462</u>	<u>12,462</u>	<u>14,245</u>	<u>34,533</u>

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

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 2017		
	Loans and advances for which allowances are collectively assessed <i>RMB'000</i>	Loans and advances for which allowances are individually assessed <i>RMB'000</i>
		Total <i>RMB'000</i>
Gross loans and advances to customers	2,112,012	32,931
Less: Allowances for impairment losses	<u>(64,935)</u>	<u>(25,618)</u>
Net loans and advances to customers	<u>2,047,077</u>	<u>7,313</u>
		<u>2,054,390</u>

31 December 2016		
	Loans and advances for which allowances are collectively assessed <i>RMB'000</i>	Loans and advances for which allowances are individually assessed <i>RMB'000</i>
		Total <i>RMB'000</i>
Gross loans and advances to customers	1,862,535	26,985
Less: Allowances for impairment losses	<u>(64,884)</u>	<u>(17,472)</u>
Net loans and advances to customers	<u>1,797,651</u>	<u>9,513</u>
		<u>1,807,164</u>

(f) Movements of allowances for impairment losses

	2017		
	Provision for impairment losses which is collectively assessed <i>RMB'000</i>	Provision for impairment losses which is individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January	64,884	17,472	82,356
Charge for the year	25,657	20,394	46,051
Reversal for the year	(25,606)	(3,574)	(29,180)
Write off	—	(8,993)	(8,993)
Recoveries of loans and advances written off in previous years	—	319	319
At 31 December	<u>64,935</u>	<u>25,618</u>	<u>90,553</u>
	2016		
	Provision for impairment losses which is collectively assessed <i>RMB'000</i>	Provision for impairment losses which is individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>64,884</u>	<u>17,472</u>	<u>82,356</u>

(g) **Analysed by credit quality**

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

12 INTANGIBLE ASSETS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Computer software	<u>3,964</u>	<u>36</u>

13 GOODWILL

RMB'000

Cost:

At 1 January 2017 22,502

At 31 December 2017 22,502

Accumulated impairment losses:

At 31 December 2017 and 2016 —

Carrying amount:

At 31 December 2017 22,502

At 31 December 2016 22,502

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

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

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

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

Impairment test

The recoverable amount of the acquired subsidiaries are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for micro-finance operations. The cash flows are discounted using discount rates of 11.48% and 11.74% by Jinhui Micro-finance and Xingyao Micro-finance respectively at 31 December 2017 (2016: Jinhui Micro-finance: 12.39%; Xingyao Micro-finance: no impairment test given that the acquisition day is very close to 31 December 2016). The discounted rates are pre-tax and reflect specific risks relating to the acquired subsidiaries.

14 INVESTMENTS IN SUBSIDIARIES

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

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

Notes:

- (i) Jinhui Micro-finance was not audited by KPMG for the year ended 31 December 2017. The financial statements of Jinhui Micro-finance not audited by KPMG reflect total net assets and total net interest income constituting approximately 16.11% and 7.87% respectively of the related consolidated amounts of the Group.
- (ii) On 18 August 2015 (date of incorporation), Zuoli HK's 1,000,000 shares with par value of HK\$1 was allotted and issued to its sole shareholder, the Company. As at 31 December 2017, the issued shares had not been paid by the Company.
- (iii) Xingyao Micro-finance was not audited by KPMG for the year ended 31 December 2017. The financial statements of Xingyao Micro-finance not audited by KPMG reflect total net assets and total net interest income constituting approximately 14.48% and 10.06% respectively of the related consolidated amounts of the Group.

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

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

15 FIXED ASSETS

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

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

17 OTHER ASSETS

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

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

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

18 INTEREST-BEARING BORROWINGS

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

Notes:

- (i) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 23(b). At 31 December 2017 and 31 December 2016, none of the covenants relating to the bank loans had been breached.

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

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

19 ACCRUALS AND OTHER PAYABLES

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

20 DEBT SECURITIES ISSUED

	31 December 2017 RMB'000	31 December 2016 RMB'000
Debt securities at amortized cost	<u>—</u>	<u>278,283</u>

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

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the years ended 31 December 2016 and 2017 are as follows:

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

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

	Share capital RMB'000 Note 22(c)	Surplus reserve RMB'000 Note 22(d)(i)	General reserve RMB'000 Note 22(d)(ii)	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2017	1,180,000	25,122	29,595	93,392	1,328,109

Changes in equity for 2017:

Total comprehensive income for the year	—	—	—	144,584	144,584
Appropriation to surplus reserve	—	14,458	—	(14,458)	—
Appropriation to general reserve	—	—	807	(807)	—
Balance at 31 December 2017	<u>1,180,000</u>	<u>39,580</u>	<u>30,402</u>	<u>222,711</u>	<u>1,472,693</u>

	Share capital RMB'000 Note 22(c)	Surplus reserve RMB'000 Note 22(d)(i)	General reserve RMB'000 Note 22(d)(ii)	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2016	1,180,000	13,508	9,209	174,457	1,377,174

Changes in equity for 2016:

Total comprehensive income for the year	—	—	—	116,135	116,135
Appropriation to surplus reserve	—	11,614	—	(11,614)	—
Appropriation to general reserve	—	—	20,386	(20,386)	—
Dividends approved in respect of the previous year (Note 22(b))	—	—	—	(165,200)	(165,200)
Balance at 31 December 2016	<u>1,180,000</u>	<u>25,122</u>	<u>29,595</u>	<u>93,392</u>	<u>1,328,109</u>

(b) Dividends

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

(c) Share capital

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

(d) Nature and purpose of reserves

(i) *Surplus reserve*

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

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

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

(ii) *General risk reserve*

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

(e) Appropriation of profits

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

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

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

- (ii) At the Annual General Meeting of shareholders held on 30 June 2017, the shareholders approved the following profit appropriations for the year ended 31 December 2016:

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

(f) Distributable reserves

At 31 December 2016 and 31 December 2017, the aggregate amounts of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Company Law of the PRC, were RMB93.4 million and RMB222.7 million respectively.

(g) Capital management

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

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

There were no changes in the Group's approach to capital management during the years ended 31 December 2016 and 2017.

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

Credit risk arising from micro-finance business

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

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

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

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

When a certain number of clients undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to a particular industry or geographic location. As the Group mainly conducts micro-finance business in Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions. At 31 December 2017, 1.40% (2016: 1.96%) and 5.83% (2016: 7.94%) of the total loans and advances to customers was due from the Group's largest customer and the five largest customers respectively.

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

Other credit risk

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

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

(b) Liquidity risk

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

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

	31 December 2017					
	Overdue/ Repayment on demand <i>RMB'000</i>	Within three months <i>RMB'000</i>	Between three months and one year <i>RMB'000</i>	Between one year and five years <i>RMB'000</i>	Total <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Assets						
Cash and cash equivalents	37,235	—	—	—	37,235	37,235
Interest receivables	396	14,147	5,848	—	20,391	20,391
Loans and advances to customers	34,533	774,842	1,637,785	18,163	2,465,323	2,054,390
Available-for-sale financial assets	27,520	—	—	—	27,520	27,520
Other assets	270	1,486	—	—	1,756	1,756
Total	99,954	790,475	1,643,633	18,163	2,552,225	2,141,292
Liabilities						
Interest-bearing borrowings	—	(27,662)	(523,290)	—	(550,952)	(532,500)
Accruals and other payables	(6,330)	(24,203)	(2,295)	—	(32,828)	(32,828)
Total	(6,330)	(51,865)	(525,585)	—	(583,780)	(565,328)
	93,624	738,610	1,118,048	18,163	1,968,445	1,575,964

31 December 2016

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

(c) **Interest risk**

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

(i) **Interest rate profile**

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

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

(ii) **Sensitivity analysis**

At 31 December 2017 and 31 December 2016, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Group's net profit during the next 12 months by approximately RMB205,000 and RMB359,000 respectively.

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

(d) **Fair value**

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

Fair value hierarchy

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

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

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

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

Fair value hierarchy:

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

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

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

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2016 and 31 December 2017.

24 COMMITMENTS

(a) Operating lease commitments

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

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

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

(b) Capital commitments

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

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

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

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

Notes:

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

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

- Borrowing from a micro-finance company in PRC, with nominal amount totaling RMB55.0 million, were provided by the Chairman of the Company without charges, which will be due on 13 February 2018.
- Borrowing issued on the platform, with product amount totaling RMB330.0 million, were provided by the Chairman of the Company without charges, which will be due during the period from 21 May 2018 to 3 August 2018.

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

(b) Balances with key management personnel

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

(c) Other related party transactions

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

(d) Balances with other related parties

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

Notes:

- (i) On 6 July 2017, the Company and Zuoli Holdings Group Company Limited entered into a lease agreement, pursuant to which Zuoli Holdings Group Company Limited agreed to lease a property to the Group for a term of 3 years commencing from 7 July 2017 and ending on 6 July 2020.
- (ii) The guarantees for bank loans in 2017 were provided by the related parties of the Group without charges, which will be due during the period from 29 June 2018 to 02 July 2018.

26 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) Impairment of receivables and loans and advances

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

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

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

(b) Impairment of long-lived assets

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

(c) Depreciation and amortisation

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

(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

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

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

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

Effective for accounting periods beginning on or after

HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
Amendments to HKFRS 40, <i>Investment property: Transfers of investment property</i>	1 January 2018
HK(IFRIC) 22, <i>Foreign currency transactions and advance consideration</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019

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

HKFRS 9, Financial instruments

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

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

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

(a) *Classification and measurement*

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

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

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

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

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

(b) *Impairment*

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

(c) *Hedge accounting*

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

Based on preliminary assessment if the Group were to adopt HKFRS9 at 31 December 2017, the Group's net assets would decrease by no more than 0.3% as a result of the new requirement on classification and measurement, and impairment as compared with that recognised under HKAS39.

HKFRS 15, Revenue from contracts with customers

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

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

HKFRS 16, Leases

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

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

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

29 SUBSEQUENT EVENTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

We commenced our microfinance business in the People's Republic of China (the “**PRC**”), and our offline business is mainly conducted in Deqing County, Huzhou City and Binjiang District, Hangzhou City, the PRC. Deqing has experienced robust economic development and growth in recent years, and is placed among the nation's top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). Deqing has been designated as a “technological outstanding county (科技強縣)”, a “financial innovation demonstration county (金融創新示範縣)” as well as the “financial back-office base in Yangtze River Delta (長三角金融後臺基地)” by the Zhejiang provincial government of the PRC. A number of new high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which has helped cultivating the local financial services industry.

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

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

Business Overview

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

Our customer base primarily consists of customers engaged in agricultural business and/or rural development activities, and/or customers residing in rural areas (“**AFR (三農)**”), small and medium enterprises (as defined in the Notice on the Provisions for Classification Standards of Small and Medium-sized Enterprises (關於印發中小企業劃型標準規定的通知) (the “**SMEs**”), micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products.

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

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

The following table sets out our registered capital, gross outstanding loans and advances to customers, and leverage ratio as of the dates indicated:

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

Note:

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

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

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

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

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

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

For the years ended 31 December 2016 and 2017, the loan amounts we granted were RMB3,461.5 million and RMB11,758.8 million, respectively.

LOAN PORTFOLIO BY SECURITY

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

	As of 31 December 2017		As of 31 December 2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Unsecured loans ⁽¹⁾	269,879	12.6	170,888	9.0
Guaranteed loans	1,813,468	84.5	1,651,250	87.4
Collateralized loans	61,546	2.9	59,602	3.2
Pledged loans	<u>50</u>	<u>0.0</u>	<u>7,780</u>	<u>0.4</u>
Total gross outstanding loans and advances to customers	<u>2,144,943</u>	<u>100.0</u>	<u>1,889,520</u>	<u>100.0</u>

Note:

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

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

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

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

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

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

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

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

For “normal” and “special mention” loans, given that they are not impaired, we make collective assessment based primarily on factors including prevailing general market, industry conditions and historical impaired ratio. For “substandard”, “doubtful” and “loss” loans, the impairment losses are assessed individually as appropriate by an evaluation of the loss expected to be incurred on the balance sheet date.

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

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

Notes:

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

- (2) Represents the allowances for impairment losses on all loans divided by the balance of impaired loans. The allowances for impairment losses on all loans include provisions provided for loans which are assessed collectively and provisions provided for impaired loans which are assessed individually. Provision coverage ratio indicates the level of provisions we set aside to cover probable loss in our loan portfolio.
- (3) Allowances for impairment losses reflect our management's estimate of the probable loss in our loan portfolio.
- (4) Represents the allowances for impairment losses divided by the balance of the gross outstanding loans and advances to customers. Provision for impairment losses ratio measures the cumulative level of provisions.
- (5) Represents the overdue loans divided by the balance of the gross outstanding loans and advances to customers.

Total impaired loans

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

Total overdue loans

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

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

We had overdue loans of RMB31.0 million and RMB34.5 million as of 31 December 2016 and 31 December 2017, respectively, accounting for approximately 1.64% and 1.61% of our gross loan balance as of the same dates. As at 23 March 2018, RMB1,378,000 among the overdue loans as of 31 December 2017 was recovered.

FINANCIAL OVERVIEW

Net interest income

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

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

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

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

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

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

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

Other net income

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

Impairment losses

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

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

Administrative expenses

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

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

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

Income tax

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

Profit and total comprehensive income for the year

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

Liquidity and capital resources

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

Working Capital Management

Cash flows

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

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

Net cash used in operating activities

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

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

Net cash used in operating activities for the year ended 31 December 2017 was RMB14.6 million. Our net cash used in operating activities reflected: (i) our profit before tax of RMB209.4 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB17.4 million, depreciation and amortization of RMB2.2 million, interest expenses of RMB42.0 million, investment income of RMB2.5 million; (ii) the effect of changes in working capital, primarily including an increase in total loans and advances to customers of RMB264.1 million, a decrease in interest receivables and other assets of RMB0.6 million, and an increase in accruals and other payables of RMB20.5 million; and (iii) income tax paid of RMB40.1 million.

Net cash generated from/(used in) investing activities

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

Net cash generated from financing activities

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

Cash management

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

Cash and cash equivalents

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

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

Interest receivables

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

Loans and advances to customers

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

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

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

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

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

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

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

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

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

Note:

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

The majority of our loans were guaranteed loans, which accounted for approximately 87.4% and 84.5% of our gross loans and advances to customers as at 31 December 2016 and 2017, respectively.

Other Assets

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

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

Note:

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

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

Accruals and other payables

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

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

Current tax liabilities

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

Capital commitments

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

Key Financial Indicators

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

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

Note:

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

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

Gearing Ratio

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

Note:

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

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

Related party transactions

For the year ended 31 December 2017, the Company leased a property from Mr. Yu Yin, an executive Director and the chairman of the Board (“**Mr. Yu Yin**”) with a rental payable of RMB515,000; and the Company leased a property from the younger sister of Mr. Yu Yin with a rental payable of RMB110,000. Such related party transactions constituted continuing connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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.

For the year ended 31 December 2017, Mr. Yu Yin and other related parties had guaranteed some of our interest-bearing borrowings. The balance of our interest-bearing borrowings in aggregate amounted to RMB532.5 million as at 31 December 2017, in which Mr. Yu Yin had provided a guarantee for the balance of interest-bearing borrowings RMB352.5 million, and other related parties had provided a guarantee for the balance of interest-bearing borrowings RMB180 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the captioned provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

For the year ended 31 December 2017, the Company leased a property from 佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*) ("**Zuoli Holdings**"), the period from 7 July 2017 to 31 December 2017 is a rental-free period under the lease.

德清普華能源有限公司 (Deqing Puhua Energy Company Limited*) ("**Puhua Energy**") is a controlling shareholder of the Company and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transaction constituted the continuing connected transactions under Chapter 14A of the Listing Rules.

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

Indebtedness

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

EMPLOYMENT AND EMOLUMENTS

As of 31 December 2017, the Company had approximately 140 employees (2016: 118). Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid, which are commensurate with the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance, etc.

SIGNIFICANT INVESTMENT

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

CONTINGENT LIABILITIES

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

CHARGE ON THE GROUP'S ASSETS

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

FOREIGN CURRENCY RISK

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

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

FUTURE PLANS FOR MATERIAL INVESTMENT AND EXPECTED SOURCE OF FUNDS

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

PROSPECTS

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

In terms of our major market of offline business, Deqing was placed among the nation's top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). A number of high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, thus help cultivating local financial services industry. In addition, Deqing has been designated as a “technological outstanding county (科技強縣)” as well as a “financial innovation demonstration county (金融創新示範縣)” by the Zhejiang provincial government. Therefore, we expect that Deqing will continue to enjoy economic stability and provide us with a relatively 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.

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

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

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

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

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

CORPORATE GOVERNANCE

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

As of the date of this announcement, the Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2017, the Company has fully complied with the CG Code.

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 2017.

Pursuant to Rule B.13 of the Model Code, the Directors has also requested any employee of the Company or director or employee of a subsidiary of the Company who, because of his office or employment in the Company or in a subsidiary, is likely to possess inside information in relation to the securities of the Company, not to deal in the securities of the Company when he would be prohibited from dealing by the Model Code as if he was 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 2017.

PROPOSED FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: HK\$Nil).

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 (as defined under the Listing Rules) has an interest in a business which competes or may compete with the business of the Company.

EVENTS AFTER THE REPORTING PERIOD

Corporate Reorganisation

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

Upon completion of the Corporate Reorganisation, the registered capital of Jinhui Micro-finance will be increased from RMB228,000,000 to RMB1,228,000,000, and the equity interest held by the Company in Jinhui Micro-finance will be increased from approximately 96.93% to approximately 99.43%. The Company will, on its entity level, cease to engage in the micro-finance business and intend to surrender its micro-finance license and be transformed into a general holding company. Jinhui Micro-finance will carry on the micro-financing business under the existing business name, “Zuoli”, of the Company, and will serve as the primary platform of the Group to conduct its micro-finance business. Simultaneously, the Board also proposed to change the Company name, its scope of business and its Board committees, and to make corresponding amendments to its articles of association.

Subject to the proposed Corporate Reorganisation was duly passed as a special resolution of the Company by the Shareholders in an extraordinary general meeting of the Company held on 5 January 2018 (the “**EGM**”), all conditions precedent under the Asset Restructuring Agreement and the Capital Injection Agreement have been fulfilled. As at 25 February 2018, the registered capital of Jinhui Micro-finance has been increased to RMB1,228 million, of which RMB1,221 million was contributed by the Company. As at the date of this announcement, the Company is still in the course of obtaining approvals from relevant PRC authorities in relation to the surrender of its micro-finance license on its entity level. Further details of the update on the Corporate Reorganisation are set out in the announcement of the Company dated 15 March 2018.

Change of Company Name and Change of Stock Short Name

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

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "AGM") will be held at Conference Room, 3th Floor, Zuoli Building, No. 399 Deqing Avenue, Deqing, Zhejiang, the PRC on Thursday, 28 June 2018. Notice of the AGM will be issued and disseminated to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the Shareholder's entitlement to attend and vote at the AGM, the H Share register of members of the Company will be closed from Tuesday, 29 May 2018 to Thursday, 28 June 2018, both days inclusive, during which period no share transfers will be registered. The holders of shares whose names appear on the register of members of the Company on 28 June 2018 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, holders of 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, 28 May 2018.

AUDIT COMMITTEE

The Audit Committee 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 2017. The annual financial statements of the Group have been audited by the independent auditor 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 2017 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
佐力科創小額貸款股份有限公司
(**Zuoli Kechuang Micro-finance Company Limited***)
YU Yin
Chairman

Hong Kong, 23 March 2018

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 purpose only