

*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.*



## **Zuoli Kechuang Micro-finance Company Limited\***

**佐力科創小額貸款股份有限公司**

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

**(Stock Code: 6866)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016**

The board (the “**Board**”) of directors (the “**Directors**”) of Zuoli Kechuang Micro-finance Company Limited\* (the “**Company**”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2016 (the “**Interim Results**”) prepared in accordance with the Hong Kong Financial Reporting Standards promulgated by the Hong Kong Institute of Certified Public Accountants. The Board and the audit committee of the Board have reviewed and confirmed the Interim Results.

## INTERIM RESULTS

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 — unaudited

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

		Six months ended 30 June	
		2016	2015
	Note	RMB’000	RMB’000
Interest income		118,268	101,165
Interest and commission expenses		<u>(4,948)</u>	<u>(6,649)</u>
<b>Net interest income</b>	3	<b>113,320</b>	94,516
Other revenue		19	19,706
Reversal/(charge) of impairment losses		596	(5,632)
Administrative expenses		<u>(18,793)</u>	<u>(21,389)</u>
<b>Profit before taxation</b>	4	<b>95,142</b>	87,201
Income tax	5	<u>(23,826)</u>	<u>(22,181)</u>
<b>Profit and total comprehensive income for the period</b>		<b><u>71,316</u></b>	<b><u>65,020</u></b>
<b>Attributable to:</b>			
Equity shareholders of the Company		70,895	65,020
Non-controlling interests		<u>421</u>	<u>—</u>
<b>Profit for the period</b>		<b><u>71,316</u></b>	<b><u>65,020</u></b>
<b>Earnings per share</b>			
Basic and diluted (RMB)	6	<u>0.06</u>	<u>0.06</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 — unaudited

(Expressed in RMB'000, unless otherwise stated)

		At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
	Note		
<b>Assets</b>			
Cash and cash equivalents	7	157,289	82,572
Interest receivables		12,591	14,852
Loans and advances to customers	8	1,529,640	1,382,415
Fixed assets	9	5,611	4,162
Goodwill		18,005	18,005
Deferred tax assets	10	14,285	16,966
Available-for-sale financial assets	11	42,770	—
Other assets	12	<u>2,623</u>	<u>3,598</u>
<b>Total assets</b>		<u><u>1,782,814</u></u>	<u><u>1,522,570</u></u>
<b>Liabilities</b>			
Interest-bearing borrowings	13	150,000	100,000
Accruals and other payables	14	5,185	7,249
Current tax liabilities		11,690	19,728
Debt securities issued	15	149,030	—
Dividend payable	16	<u>165,200</u>	<u>—</u>
<b>Total liabilities</b>		<u><u>481,105</u></u>	<u><u>126,977</u></u>
<b>NET ASSETS</b>		<u><u>1,301,709</u></u>	<u><u>1,395,593</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	17	1,180,000	1,180,000
Reserves		<u>113,872</u>	<u>208,177</u>
<b>Total equity attributable to equity shareholders of the Company</b>		<u><u>1,293,872</u></u>	<u><u>1,388,177</u></u>
<b>Non-controlling interests</b>		<u>7,837</u>	<u>7,416</u>
<b>TOTAL EQUITY</b>		<u><u>1,301,709</u></u>	<u><u>1,395,593</u></u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in RMB'000, unless otherwise stated)*

## 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 25 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

## 2 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. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012–2014 Cycle*
- *Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative*

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

### **Annual Improvements to HKFRSs 2012–2014 Cycle**

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference

to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

### **Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative**

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

### **3 NET INTEREST INCOME**

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Interest income arising from</b>		
Loans and advances to customers	117,651	100,025
Cash at banks	617	1,028
Receivables from non-bank institutions	<u>—</u>	<u>112</u>
	<u><b>118,268</b></u>	<u><b>101,165</b></u>
<b>Interest and commission expenses arising from</b>		
Borrowings from banks	(4,223)	(6,602)
Borrowings from non-bank institutions	(697)	—
Bank charges	<u>(28)</u>	<u>(47)</u>
	<u><b>(4,948)</b></u>	<u><b>(6,649)</b></u>
<b>Net interest income</b>	<u><b>113,320</b></u>	<u><b>94,516</b></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 period.

For the period, the Directors have determined that the Group has only one single business component/reportable segment as the Group is principally engaged in providing lending services which is the basis to allocate resources and assess performance of the Group.

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

#### 4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

##### (a) Staff costs

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, bonuses and allowance	3,930	1,861
Contribution to retirement scheme	251	122
Social insurance and other benefits	<u>870</u>	<u>1,822</u>
<b>Total</b>	<b><u>5,051</u></b>	<b><u>3,805</u></b>

The Group is required to participate in the pension scheme organized by the municipal government of Huzhou City, Zhejiang Province whereby the Group is required to pay annual contributions for PRC based employees at certain rate of the standard wages determined by the relevant authorities in the PRC during the period. 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

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation expenses ( <i>Note 9</i> )	989	507
Operating lease charges in respect of building	444	325
Auditors' remuneration	859	660

## 5 INCOME TAX

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
<b>Current tax</b>		
Provision for PRC income tax for the period	21,145	18,138
<b>Deferred tax (Note 10)</b>		
Origination and reversal of temporary differences	<u>2,681</u>	<u>4,043</u>
<b>Total</b>	<u><u>23,826</u></u>	<u><u>22,181</u></u>

Notes:

- (i) The Company and the subsidiary of the Group incorporated in the PRC are subject to PRC income tax at the statutory tax rate of 25% for the six months ended 30 June 2016 (six months ended 30 June 2015: 25%).
- (ii) No provision for Hong Kong profit tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong profit tax for the six months ended 30 June 2016.

## 6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB70.9 million (six months ended 30 June 2015: RMB65.0 million) and the weighted average of 1,180,000,000 ordinary shares (six months ended 30 June 2015: 1,158,453,000) in issue during the interim period.

There were no dilutive potential ordinary shares during each of the six months ended 30 June 2016 and 30 June 2015, and therefore, diluted earnings per share are the same as the basic earnings per share.

## 7 CASH AND CASH EQUIVALENTS

	At 30 June	At 31 December
	2016	2015
	RMB'000	RMB'000
Cash in hand	2	2
Cash at banks	156,923	82,398
Others	<u>364</u>	<u>172</u>
Cash and cash equivalents in the cash flow statement	<u><u>157,289</u></u>	<u><u>82,572</u></u>

## 8 LOANS AND ADVANCES TO CUSTOMERS

### (a) Analysed by nature

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Enterprise loans	529,374	708,934
Retail loans	896,910	643,174
Internet loans	<u>175,837</u>	<u>103,261</u>
Gross loans and advances to customers	<u>1,602,121</u>	<u>1,455,369</u>
Less: Allowances for impairment losses		
— Collectively assessed	(54,534)	(54,932)
— Individually assessed	<u>(17,947)</u>	<u>(18,022)</u>
Total allowances for impairment losses	<u>(72,481)</u>	<u>(72,954)</u>
Net loans and advances to customers	<u>1,529,640</u>	<u>1,382,415</u>

### (b) Analysed by type of collateral

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Unsecured loans	138,578	91,144
Guaranteed loans	1,387,146	1,283,653
Collateralized loans	68,617	79,972
Pledged loans	<u>7,780</u>	<u>600</u>
	<u>1,602,121</u>	<u>1,455,369</u>
Less: Allowances for impairment losses		
— Collectively assessed	(54,534)	(54,932)
— Individually assessed	<u>(17,947)</u>	<u>(18,022)</u>
Total allowances for impairment losses	<u>(72,481)</u>	<u>(72,954)</u>
Net loans and advances to customers	<u>1,529,640</u>	<u>1,382,415</u>



(c) **Analysed by industry sector**

	At 30 June 2016		At 31 December 2015	
	RMB'000	%	RMB'000	%
Wholesale and retail	181,929	11%	282,920	19%
Agriculture, forestry, animal husbandry and fishery	156,821	10%	197,220	14%
Construction	86,792	5%	158,492	11%
Manufacturing	58,332	4%	35,752	3%
Others	<u>45,500</u>	<u>3%</u>	<u>34,550</u>	<u>2%</u>
Enterprise loans	529,374	33%	708,934	49%
Retail loans	896,910	56%	643,174	44%
Internet loans	<u>175,837</u>	<u>11%</u>	<u>103,261</u>	<u>7%</u>
Gross loans and advances to customers	1,602,121	<u>100%</u>	1,455,369	<u>100%</u>
Less: Allowances for impairment losses	<u>(72,481)</u>		<u>(72,954)</u>	
Net loans and advances to customers	<u>1,529,640</u>		<u>1,382,415</u>	

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

	At 30 June 2016				
	Overdue within 3 months (inclusive) RMB'000	Overdue more than 3 months to 6 months (inclusive) RMB'000	Overdue more than 6 months to one year (inclusive) RMB'000	Overdue more than one year RMB'000	Total RMB'000
Unsecured loans	2,862	3,331	—	—	6,193
Guaranteed loans	662	460	1,038	3,817	5,977
Collateralized loans	<u>4,100</u>	<u>—</u>	<u>2,300</u>	<u>6,767</u>	<u>13,167</u>
Total	<u>7,624</u>	<u>3,791</u>	<u>3,338</u>	<u>10,584</u>	<u>25,337</u>

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

	At 30 June 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	1,570,017	32,104	1,602,121
Less: Allowances for impairment losses	<u>(54,534)</u>	<u>(17,947)</u>	<u>(72,481)</u>
Net loans and advances to customers	<u>1,515,483</u>	<u>14,157</u>	<u>1,529,640</u>

	At 31 December 2015		
	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	1,420,297	35,072	1,455,369
Less: Allowances for impairment losses	<u>(54,932)</u>	<u>(18,022)</u>	<u>(72,954)</u>
Net loans and advances to customers	<u>1,365,365</u>	<u>17,050</u>	<u>1,382,415</u>

**(f) Movements of allowances for impairment losses**

	Six months ended 30 June 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
Charge for the period	—	122	122
Reversal for the period	(398)	(320)	(718)
Recoveries of loans and advances written off in previous years	<u>—</u>	<u>123</u>	<u>123</u>
At 30 June	<u>54,534</u>	<u>17,947</u>	<u>72,481</u>

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

**(g) Analysed by credit quality**

	<b>At 30 June 2016 <i>RMB'000</i></b>	At 31 December 2015 <i>RMB'000</i>
Gross balance of loans and advances to customers		
Neither overdue nor impaired	<b>1,570,017</b>	1,420,297
Impaired	<b>32,104</b>	35,072
	<b><u>1,602,121</u></b>	<u>1,455,369</u>
Less: Allowances for impairment losses		
Neither overdue nor impaired	<b>(54,534)</b>	(54,932)
Impaired	<b>(17,947)</b>	(18,022)
	<b><u>(72,481)</u></b>	<u>(72,954)</u>
Net balance		
Neither overdue nor impaired	<b>1,515,483</b>	1,365,365
Impaired	<b>14,157</b>	17,050
	<b><u>1,529,640</u></b>	<u>1,382,415</u>

## 9 FIXED ASSETS

	<b>Office and other equipment</b>	<b>Motor vehicles</b>	<b>Electronic equipment</b>	<b>Leasehold improvement</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost:</b>					
At 1 January 2015	588	1,185	346	1,545	3,664
Acquisition of subsidiary	69	215	125	966	1,375
Additions	73	380	672	2,045	3,170
Disposal	—	(215)	—	—	(215)
	<u>730</u>	<u>1,565</u>	<u>1,143</u>	<u>4,556</u>	<u>7,994</u>
At 31 December 2015 and 1 January 2016	730	1,565	1,143	4,556	7,994
Additions	<u>162</u>	<u>384</u>	<u>261</u>	<u>1,631</u>	<u>2,438</u>
	<u>892</u>	<u>1,949</u>	<u>1,404</u>	<u>6,187</u>	<u>10,432</u>
At 30 June 2016	892	1,949	1,404	6,187	10,432
<b>Accumulated depreciation:</b>					
At 1 January 2015	(360)	(431)	(181)	(1,056)	(2,028)
Acquisition of subsidiary	(34)	(98)	(80)	(515)	(727)
Charge for the year	(138)	(259)	(107)	(675)	(1,179)
Disposal	—	102	—	—	102
	<u>(532)</u>	<u>(686)</u>	<u>(368)</u>	<u>(2,246)</u>	<u>(3,832)</u>
At 31 December 2015 and 1 January 2016	(532)	(686)	(368)	(2,246)	(3,832)
Charge for the period	<u>(85)</u>	<u>(165)</u>	<u>(128)</u>	<u>(611)</u>	<u>(989)</u>
	<u>(617)</u>	<u>(851)</u>	<u>(496)</u>	<u>(2,857)</u>	<u>(4,821)</u>
At 30 June 2016	(617)	(851)	(496)	(2,857)	(4,821)
<b>Net book value:</b>					
At 30 June 2016	<u>275</u>	<u>1,098</u>	<u>908</u>	<u>3,330</u>	<u>5,611</u>
At 31 December 2015	<u>198</u>	<u>879</u>	<u>775</u>	<u>2,310</u>	<u>4,162</u>

## 10 DEFERRED TAX ASSETS

The components of deferred tax assets recognized in the statement of financial position and the movements during the period are as follows:

Deferred tax assets arising from:	Provision for impairment losses <i>RMB'000</i>	Accrued expenses <i>RMB'000</i>	Conditional government grants <i>RMB'000</i>	Recognised tax losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2015	11,458	474	3,250	—	15,182
Acquisition of subsidiary	2,674	100	—	7,004	9,778
Charged to profit or loss	(367)	183	(3,250)	(4,560)	(7,994)
At 31 December 2015 and 1 January 2016	13,765	757	—	2,444	16,966
Charged to profit or loss (Note 5)	49	(286)	—	(2,444)	(2,681)
At 30 June 2016	<u>13,814</u>	<u>471</u>	<u>—</u>	<u>—</u>	<u>14,285</u>

## 11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Wealth management products (Note)	<u>42,770</u>	<u>—</u>

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

## 12 OTHER ASSETS

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Prepaid income tax	434	1,808
Prepayment	2,147	1,693
Others	<u>42</u>	<u>97</u>
	<u>2,623</u>	<u>3,598</u>

### 13 INTEREST-BEARING BORROWINGS

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Bank loans ( <i>Note</i> )		
— Guaranteed by related parties	<u>150,000</u>	<u>100,000</u>

*Note:* All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2016 and 31 December 2015, none of the covenants relating to the bank loans had been breached.

### 14 ACCRUALS AND OTHER PAYABLES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
VAT payable	1,494	—
Accrued staff cost	1,122	1,748
Interest payable	209	61
Business tax and surcharges and other taxation payable	171	1,750
Other payables	<u>2,189</u>	<u>3,690</u>
	<u>5,185</u>	<u>7,249</u>

### 15 DEBT SECURITIES ISSUED

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Debt securities at amortized cost ( <i>Note</i> )	<u>149,030</u>	<u>—</u>

*Note:* Debt securities with nominal value totalling of RMB150.0 million and a term of six months were issued in May and June 2016 respectively. The coupon rate is 6% per annum.

## 16 DIVIDEND PAYABLE

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Dividend payable ( <i>Note</i> )	<u>165,200</u>	<u>—</u>

*Note:* Subject to the shareholder's approval at the meeting on 30 June 2016, the Group paid a cash dividend of RMB0.14 per share for the year ended 31 December 2015 in aggregate amount of RMB165,200,000 to all shareholders of the Company. Dividend payable to holders of domestic shares shall be paid in RMB, whereas dividend payable to holders of H shares shall be paid in Hong Kong dollars. The cash dividends have been paid by the Company on 28 July 2016.

## 17 CAPITAL, RESERVES AND DIVIDENDS

### (a) Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period.

	Six months ended 30 June	
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Final dividend in respect of the previous financial year approved during the following interim period of RMB0.14 per share	<u>165,200</u>	<u>—</u>

### (b) Share capital

As at 30 June 2016, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1.0 each.

### (c) Nature and purpose of reserves

#### (i) *Capital/Share reserve*

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

#### (ii) *Surplus reserve*

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



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

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

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

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

## **18 FAIR VALUES MANAGEMENT OF FINANCIAL INSTRUMENTS**

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

**(i) *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.

	At 30 June 2016			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Available-for-sale financial assets				
Wealth management products	—	42,770	—	42,770

**(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 the period that the Group has held such wealth management products.

**(b) 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 30 June 2016 and 31 December 2015.

**19 COMMITMENTS**

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 year	444	714
After 1 year but within 5 years	<u>97</u>	<u>183</u>
<b>Total</b>	<b><u>541</u></b>	<b><u>897</u></b>

The Group is the lessee in respect of a certain properties held under operating leases. The leases typically run for an initial period of 1–5 years, at the end of which period all terms are renegotiated. None of the leases include contingent rentals.

## 20 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Transactions with key management personnel

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Key management personnel remuneration	1,613	606
Operating lease charges ( <i>Note</i> )	258	313
Receiving guarantees for debt securities issued	150,000	—

*Note:* Operating lease charges are paid to the chairman of the Group for the lease in respect of the Group's office. The lease was carried out on normal commercial terms.

### (b) Balances with key management personnel

	At 30 June	At 31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Guarantees received for bank loans ( <i>Note 20(d)(i)</i> )	50,000	50,000
Guarantees received for debt securities issued ( <i>Note 20(d)(ii)</i> )	150,000	—

### (c) Other related party transactions

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Operating lease charges	55	—
Receiving guarantees for bank loans	50,000	—
Releasing guarantees for bank loans	—	(175,000)
Receiving guarantees for debt securities issued	150,000	—

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

(d) **Balances with other related parties**

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Guarantees received for bank loans ( <i>Note(i)</i> )	<b>150,000</b>	100,000
Guarantees received for debt securities issued ( <i>Note(ii)</i> )	<b>150,000</b>	—

*Notes:*

- (i) The guarantees received for bank loans at 30 June 2016 were provided by key management personnel and other related parties of the Group without charges, among which RMB20.0 million, RMB30.0 million and the rest will be due on 22 December 2016, 27 December 2016 and 23 August 2016 respectively.
- (ii) The guarantees, received for debt securities issued, at 30 June 2016 were provided by key management personnel and other related parties of the Group without charges. For the details of debt securities issued, please refer to Note 15.

**21 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD**

The Group issued fixed rate corporate bonds in July 2016 with an aggregated nominal value of RMB150.0 million. The terms of these bonds are six months and the bonds bear the coupon rate at 6% per annum.

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

On 15 August 2016, the Group held a Board meeting and approved the acquisition of 60% of the equity interests in 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) (“**Hangzhou Xing Yao Pu Hui Micro-finance**”) with a consideration no more than RMB133.68 million. Up to 25 August 2016, the above acquisition is subject to the approval of certain authorities of the PRC.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

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

Competition within the microfinance industry in Zhejiang is extremely intense. As of 30 June 2016, the number of microfinance companies in Zhejiang reached 341. The average registered capital per microfinance company amounted to RMB196.6 million while the average loan balance per microfinance company amounted to RMB225.8 million.

The microfinance industry in Deqing has also seen rapid growth. As of 30 June 2016, there were five microfinance companies in Deqing. The accumulated aggregate amount of loans granted for the six months ended 30 June 2016 reached RMB2,318.9 million, of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 70.1%, and the loan balance as of 30 June 2016 reached RMB2,712.4 million, of which the loan balance of the Group accounted for approximately 59.1%.

### Business Overview

As at 30 June 2016, according to the statistics from the Financial Work Office of the People's Government of Zhejiang Province, we were the largest licensed microfinance company in Zhejiang in terms of registered capital. We are dedicated to providing loans services to customers in Huzhou City, Zhejiang, the PRC and online retailers nationwide by providing financing solutions with flexible terms through quick and comprehensive loan assessment and approval processes.

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

Due to the expansion of our loan business and strong demand for financing by our customers, our gross outstanding amount increased from RMB1,455.4 million as of 31 December 2015 to RMB1,602.1 million as of 30 June 2016. The following table sets out our registered capital, gross outstanding loans and advances to customers, and leverage ratio as of the dates indicated:

<b>Items</b>	<b>30 June 2016</b>	31 December 2015
Registered capital (RMB in thousands)	<b>1,180,000</b>	1,180,000
Gross outstanding loans and advances to customers (RMB in thousands)	<b>1,602,121</b>	1,455,369
Leverage ratio <sup>(1)</sup>	<b><u>1.36</u></b>	<u>1.23</u>

*Note:*

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

For the year ended 31 December 2015 and 30 June 2016, our average interest rates for loans were 15.6% and 15.1%, respectively. The decrease in our average loan interest rate was mainly due to the fact that according to the relevant requirements of “Circular on Comprehensive Promotion of the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax” (Cai Shui [2016] No.36) (財政部國家稅務總局《關於全面推開營業稅改徵增值稅試點的通知》) (財稅[2016] 36號) issued by the MOF and the State Administration of Taxation (“**Circular No. 36**”), the Company was included in the pilot program of Value-added Tax in Lieu of Business Tax since 1 May 2016. Since value-added tax is a tax included in price, therefore, the corresponding interest income is the net value after deducting the value-added tax and no business tax is required to be deducted from previous interest income, resulting in the decrease in our average loan interest rate (representing interest income on loans divided by average daily loan balance).

We primarily served customers engaged in AFR (三農), SMEs, microenterprises and online retailers throughout the country engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products in Huzhou. As of 31 December 2015 and 30 June 2016, we served over 1,545 and 2,887 customers, respectively.

For the year ended 31 December 2015 and the six months ended 30 June 2016, 53.0% and 91.5% of our loan contracts were of loan size up to RMB1.0 million, respectively. In our loan contracts, the proportion of loans with a maximum amount of RMB1.0 million increased drastically during the aforementioned period, which was mainly due to consistent growth of online loans business and offline consumption loans business, of which the amount of loan per business unit is restricted to be within RMB500,000.

For the six months ended 30 June 2015 and 30 June 2016, the total amount of loans we granted were RMB1,398.9 million and RMB1,626.3 million, respectively.

### *Loan Portfolio by Security*

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

Items	30 June 2016		31 December 2015	
	RMB'000	%	RMB'000	%
Unsecured loans <sup>(1)</sup>	138,578	8.6	91,144	6.3
Guaranteed loans	1,387,146	86.6	1,283,653	88.2
Collateralized loans	68,617	4.3	79,972	5.5
Pledged loans	<u>7,780</u>	<u>0.5</u>	<u>600</u>	<u>0.0</u>
<b>Total gross outstanding loans and advances to customers</b>	<b><u>1,602,121</u></b>	<b><u>100.0</u></b>	<b><u>1,455,369</u></b>	<b><u>100.0</u></b>

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

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:

Items	30 June 2016		31 December 2015	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Normal	1,466,118	91.5	1,261,417	86.7
Special mention	103,899	6.5	158,880	10.9
Substandard	11,279	0.7	18,748	1.3
Doubtful	17,004	1.1	12,595	0.9
Loss	<u>3,821</u>	<u>0.2</u>	<u>3,729</u>	<u>0.2</u>
<b>Total gross outstanding loans and advances to customers</b>	<b><u>1,602,121</u></b>	<b><u>100.0</u></b>	<b><u>1,455,369</u></b>	<b><u>100.0</u></b>

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

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

	30 June 2016 <i>RMB'000</i>	31 December 2015 <i>RMB'000</i>
<b>Impaired loan ratio<sup>(1)</sup></b>	<b>2.0%</b>	2.4%
Balance of impaired loans	<b>32,104</b>	35,072
Gross outstanding loans and advances to customers	<b>1,602,121</b>	1,455,369
<b>Provision coverage ratio<sup>(2)</sup></b>	<b>225.8%</b>	208%
Allowances for impairment losses <sup>(3)</sup>	<b>72,481</b>	72,954
Balance of impaired loans	<b>32,104</b>	35,072
<b>Provision for impairment losses ratio<sup>(4)</sup></b>	<b>4.5%</b>	5.0%
Balance of overdue loans	<b>25,337</b>	15,742
Gross outstanding loans and advances to customers	<b>1,602,121</b>	1,455,369
<b>Overdue loan ratio<sup>(5)</sup></b>	<b>1.58%</b>	1.08%



*Notes:*

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

Our impaired loans decreased slightly from RMB35.1 million as of 31 December 2015 to RMB32.1 million as of 30 June 2016, mainly due to the collection during the current period of certain sub-standard loans outstanding as at 31 December 2015.

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

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
Unsecured loans	<b>6,193</b>	373
Guaranteed loans	<b>5,977</b>	5,102
Collateralized loans	<b><u>13,167</u></b>	<u>10,267</u>
<b>Total overdue loans</b>	<b><u><u>25,337</u></u></b>	<u><u>15,742</u></u>

We had overdue loans of RMB15.7 million and RMB25.3 million as at 31 December 2015 and 30 June 2016, respectively, accounting for 1.08% and 1.58% of our gross outstanding amount as of the same dates. As of 25 August 2016, RMB687 thousand among the overdue loans as at 30 June 2016 was recovered.

## Financial Overview

### *Net interest income*

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

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

<b>Items</b>	<b>For the six months ended 30 June 2016 RMB'000</b>	<b>For the six months ended 30 June 2015 RMB'000</b>
<b>Interest income from the following items</b>		
Loans and advances to customers	<b>117,651</b>	100,025
Cash at banks	<b>617</b>	1,028
Receivables from non-bank institutions	<u>—</u>	<u>112</u>
Total interest income	<u><b>118,268</b></u>	<u>101,165</u>
<b>Interest and commission expenses from the following items</b>		
Borrowings from banks	<b>(4,223)</b>	(6,602)
Borrowings from non-bank institutions	<b>(697)</b>	—
Bank charges	<u><b>(28)</b></u>	<u>(47)</u>
Total interest and commission expenses	<u><b>(4,948)</b></u>	<u>(6,649)</u>
Net interest income	<u><b>113,320</b></u>	<u>94,516</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 outstanding loans increased during the reporting period, which was mainly due to the expansion of our loan business and strong demand for financing by our customers. As at 31 December 2015 and 30 June 2016, our gross loan balances were RMB1,455.3 million and RMB1,602.1 million, respectively. For the year ended 31 December 2015 and the six months ended 30 June 2016, our average interest rates for loans were 15.6% and 15.1%, respectively. The decrease in our average loan interest rate was mainly due to the fact that according to the relevant requirements of

Circular No. 36, the Company was included in the pilot program of Value-added Tax in Lieu of Business Tax since 1 May 2016. Since value-added tax is a tax included in price, therefore, the corresponding interest income is the net value after deducting the value-added tax and no business tax is required to be deducted from previous interest income, resulting in the decrease in our average loan interest rate (representing interest income on loans divided by average daily loan balance).

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions, as well as bank charges, were RMB6.6 million and RMB4.9 million for the six months ended 30 June 2015 and 30 June 2016, respectively. We incur interest expenses primarily on the interest payment on bank borrowings and borrowings from non-banking institutions (bond payable). Such borrowings were principally used to expand our loan business.

Our bank borrowings balance amounted to RMB100 million and RMB150 million as of 31 December 2015 and 30 June 2016, respectively. During the reporting period, our interest-bearing bank borrowings increased mainly due to our strong demand for loans; our interest expenses for bank borrowings decreased mainly due to the decrease in annual interest rate of our bank borrowings.

As of 30 June 2016, carrying balance of our bond payable was RMB149 million.

Our net interest income for the six months ended 30 June 2015 and 30 June 2016 were RMB94.5 million and RMB113.3 million, respectively.

### ***Other Revenue***

Other revenue for the six months ended 30 June 2015 and 30 June 2016 were RMB19.7 million and RMB19 thousand, respectively. Other revenue mainly consists of government grants. During the aforesaid period, the substantial decrease in other revenue was mainly due to the fact that (i) government grants of RMB13.0 million received in 2014 were recognized as gains in the first half of 2015; (ii) government grants for 2016 have not been received in the first half of the year.

### ***Impairment losses***

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

For the six months ended 30 June 2015 and 30 June 2016, our impairment losses were RMB5.6 million and RMB-0.6 million, respectively.

### *Administrative expenses*

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

<b>Items</b>	<b>For the six months ended 30 June 2016 RMB'000</b>	<b>For the six months ended 30 June 2015 RMB'000</b>
Business tax and surcharge	4,125	5,599
Staff costs	5,051	3,805
Office expenditures and travel expenses	1,575	2,978
Operating lease charges	444	325
Depreciation and amortization expenses	989	507
Consulting and professional service fees	2,947	2,990
Business development expenses	397	550
Advertising expenses	2,210	2,108
Others	<u>1,055</u>	<u>2,527</u>
Total administrative expenses	<u><u>18,793</u></u>	<u><u>21,389</u></u>

Our business tax and surcharge mainly include: (i) business tax; (ii) city construction and maintenance tax; and (iii) education surcharge. For the six months ended 30 June 2015 and 30 June 2016, our business tax and surcharge were RMB5.6 million and RMB4.1 million, respectively, accounting for 26.2% and 21.9% of our total administrative expenses, respectively. The decrease in our business tax and surcharge during the aforementioned period was mainly due to the fact that we no longer pay business tax since 1 May 2016 when we was included in the pilot program of Value-added Tax in Lieu of Business Tax in accordance with the relevant requirements of Circular No. 36.

Our staff costs accounted for 17.8% and 26.9% of total administrative expenses for the six months ended 30 June 2015 and 30 June 2016, respectively. Our staff costs increased from RMB3.8 million for the six months ended 30 June 2015 to RMB5.1 million for the six months ended 30 June 2016, which was mainly attributable to the following factors: (i) we hired additional employees in the second half of 2015 and the

first half of 2016, including new senior management and customer relationship managers due to the expansion of our loan business; and (ii) the existing staff members of Deqing Jin Hui Micro-finance Co., Ltd\* (德清金匯小額貸款有限公司) (“**Jinhui Micro-finance**”) were hired by us from 1 July 2015.

### ***Income tax***

Our income tax for the six months ended 30 June 2015 and 30 June 2016 were RMB22.2 million and RMB23.8 million, respectively, and our effective tax rates were 25.4% and 25.0%, respectively.

### ***Profit for the period***

As a result of the foregoing, we had profits for the period of RMB65.0 million and RMB71.3 million for the six months ended 30 June 2015 and 30 June 2016, respectively.

### ***Liquidity and capital resources***

We mainly fund our working capital and other capital requirements by equity contributions from the shareholders of the Company (the “**Shareholders**”), bank borrowings, bond issuance and cash flows from operations. Our liquidity and capital requirements are mainly related to extending loans and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity level that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than normal bank borrowings we obtain from commercial banks and issuance of bond financing on the Zhejiang Equities Exchange Centre (浙江省股權交易中心), we do not expect to have any material external debt financing plan in the near future.

## **Working Capital Management**

### ***Net cash generated from/(used in) operating activities***

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

Equity contributions from Shareholders, bank borrowings and issuance of bond were included as cash generated from financing activities. We use such cash for granting new loans to customers and classify such cash as cash used in operating activities, therefore, we usually report such item as net cash used in operating activities. Due to the lending-based nature of our business and the accounting treatment which required such deployment of cash to be accounted for as operating cash outflow, we typically

experience net cash outflows from operating activities when we expand our loan business as a result of such accounting treatment, which is generally in line with the industry norm.

Net cash generated from operating activities for the six months ended 30 June 2016 was RMB-74.3 million. Our net cash generated from/(used in) operating activities reflect the followings: (i) our profit before tax of RMB95.1 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB-0.6 million, depreciation and amortization of RMB1.0 million and interest expenses of RMB4.9 million; (ii) the effect of changes in working capital, primarily including an increase in (total) loans and advances to customers of RMB146.6 million, a decrease in interest receivables and other assets of RMB2.8 million and a decrease in accruals and other payables of RMB1.7 million; and (iii) income tax paid of RMB29.2 million.

#### ***Net cash (used in)/generated from investing activities***

For the six months ended 30 June 2016, our net cash outflow generated from investing activities was RMB45.3 million. Our cash outflow for investing activities mainly consisted of the followings: (i) amount paid for the purchase of wealth management products of RMB42.8 million; (ii) payment of decoration fees and purchase of equipment of RMB2.5 million.

#### ***Net cash generated from financing activities***

For the six months ended 30 June 2016, our net cash generated from financing activities was RMB194.3 million. Our net cash flow from financing activities consisted of issuance of bond (after deducting relevant underwriting fees) of RMB148.4 million and new bank borrowings of RMB50.0 million, which was partially offset by payment of interest on borrowings of RMB4.1 million.

#### ***Cash management***

As our business primarily relies on our available cash, we normally set aside a sufficient amount of cash for meeting general working capital needs, such as administrative expenses and payment of interests on bank borrowings, and use the remainder for granting loans to our customers. As at 31 December 2015 and 30 June 2016, the total cash and cash equivalents amounted to RMB82.6 million and RMB157.3 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:

<b>Items</b>	<b>30 June 2016 RMB'000</b>	<b>31 December 2015 RMB'000</b>
Cash in hand	2	2
Cash at banks	156,923	82,398
Others	<u>364</u>	<u>172</u>
Cash and cash equivalents in the cash flow statement	<u><b>157,289</b></u>	<u><b>82,572</b></u>

The increase in our cash and cash equivalents from RMB82.6 million as of 31 December 2015 to RMB157.3 million as of 30 June 2016 was primarily due to the fact that we retained more cash and cash equivalents as of 30 June 2016 since we distributed cash dividends in July 2016.

### *Interest receivables*

As of 31 December 2015 and 30 June 2016, our interest receivables were RMB14.9 million and RMB12.6 million, respectively. The decrease in interest receivables during the aforesaid period was mainly due to the fact that interests of more customers with interests payable upon repayment of principal expired in the first half of 2016 which wrote down interest receivables.

### *Loans and advances to customers*

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

<b>Items</b>	<b>30 June 2016 RMB'000</b>	<b>31 December 2015 RMB'000</b>
Enterprises loans <sup>(1)</sup>	<b>529,374</b>	708,934
Retail loans	<b>896,910</b>	643,174
Internet loans	<b>175,837</b>	103,261
Gross loans and advances to customers	<b><u>1,602,121</u></b>	<b><u>1,455,369</u></b>
Less: Allowances for impairment losses		
— Collectively assessed	<b>(54,534)</b>	(54,932)
— Individually assessed	<b>(17,947)</b>	(18,022)
Total allowances for impairment losses	<b><u>(72,481)</u></b>	<b><u>(72,954)</u></b>
Net loans and advances to customers	<b><u>1,529,640</u></b>	<b><u>1,382,415</u></b>

*Note:*

(1) Include loans to sole proprietors

As at 30 June 2016, our gross loans and advances to customers amounted to RMB1,602.1 million, mainly because of our increased financing scale and expansion of 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.



We had overdue loans of RMB15.7 million and RMB25.3 million at 31 December 2015 and 30 June 2016, respectively, accounting for 1.08% and 1.58% of our gross loans and advances to customers as of the same dates.

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

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
Unsecured loans <sup>(1)</sup>	<b>138,578</b>	91,144
Guaranteed loans	<b>1,387,146</b>	1,283,653
Collateralized loans	<b>68,617</b>	79,972
Pledged loans	<b><u>7,780</u></b>	<u>600</u>
Loans and advances portfolio to customers	<b><u><u>1,602,121</u></u></b>	<u><u>1,455,369</u></u>

*Note:*

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

The majority of our loans were guaranteed loans as of 31 December 2015 and 30 June 2016. Our guaranteed loans accounted for 88.2% and 86.6% of our gross loans and advances to customers as of 31 December 2015 and 30 June 2016, respectively.

### ***Current tax liabilities***

Our current tax liabilities, which represent payables of our income tax, were RMB19.7 million and RMB11.7 million, as at 31 December 2015 and 30 June 2016, respectively.

### ***Capital commitments***

As of 30 June 2016, we had no capital commitments.

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

	<b>Six months ended 30 June 2016</b>	Twelve months ended 31 December 2015
Return on weighted average equity	<b>10.0<sup>(2)</sup></b>	11.3
Return on average assets <sup>(1)</sup>	<b><u>8.6<sup>(2)</sup></u></b>	<b><u>10.8</u></b>

*Notes:*

- (1) Represents profit attributable to equity shareholders of the Company for the period/year divided by average balance of total assets as of the beginning and end of a period/year
- (2) Annualized by dividing the actual figure by 6 and multiplied by 12

	<b>30 June 2016</b>	31 December 2015
Gearing ratio	<b><u>11.0%</u></b>	<b><u>1.3%</u></b>

*Note:*

- (1) Represents the sum of bank borrowings and bonds payable, less cash and cash equivalents, divided by total equity attributable to equity shareholders of the Company as at the end of the period.

Our gearing ratio increased from 1.3% as of 31 December 2015 to 11.0% as of 30 June 2016, mainly because of the expansion of financial leverage given the strong demand for our loans. As of 30 June 2016, apart from increasing our bank borrowings by RMB50.0 million, we also increased the balance of bonds payable by RMB149 million.

### ***Related party transactions***

For the six months ended 30 June 2016, we leased a property from Mr. Yu Yin, an executive Director and the chairman of the Board, and paid rental of RMB258,000; we leased a property from the younger sister of Mr. Yu Yin and paid rental of RMB55,000. Such related party transactions constitute the continuing connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and are fully exempted from Shareholders’ approval, annual review and all disclosure requirements.

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

During the reporting period, Mr. Yu Yin, our executive Director and the chairman of the Board, and other related parties had guaranteed some of our bank borrowings. The balance of bank borrowings amounted to RMB150.0 million as at 30 June 2016. Mr. Yu Yin provided guarantee balance of RMB50.0 million for bank borrowings of RMB50.0 million, and other related parties provided guarantee balance of RMB150.0 million for such bank borrowings. Such related party transaction constituted the continuing connected transaction under Chapter 14A of the Listing Rules and was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

During the reporting period, Mr. Yu Yin, our executive Director and the chairman of the Board, and other related parties had issued bonds to the Zhejiang Equities Exchange Centre (浙江省股權交易中心) as guarantee. As at 30 June 2016, Mr. Yu Yin and other related parties provided guarantee balance of RMB150.0 million for the issued bonds. Such related party transaction constituted the continuing connected transaction under Chapter 14A of the Listing Rules and was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

### *Indebtedness*

The following table sets forth our outstanding borrowings and bonds payable as of the dates indicated:

<b>Item</b>	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
Bank borrowings	<b>150,000</b>	100,000
Bonds payable	<b><u>149,030</u></b>	<u>—</u>
Total	<b><u><u>299,030</u></u></b>	<u><u>100,000</u></u>

Our bank borrowings and bonds payable were the borrowings required for our business expansion.

### *Off-balance sheet arrangements*

As of 30 June 2016, we did not have any off-balance sheet arrangements.

## Employment and Emoluments

As at 30 June 2016, the Group had approximately 82 employees. Employees' remuneration has been paid in accordance with the relevant PRC policies. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

## Prospects

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

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

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

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

development of the Company and the official commencement of our online finance business. The Board is of the view that such expansion in the scope of business would enable the Company to diversify its revenue stream, open up a channel for the provision of lending services to online retailers across the country, break through its current geographical limitation in Huzhou and reduce its reliance on the Huzhou market.

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

Meanwhile, we will continue to expand the geographical coverage of our offline business through strategic acquisition of other microfinance companies or financial institutions to the extent permitted by policies. On 15 August 2016, we entered into an equity transfer agreement with some of the shareholders of Hangzhou Xing Yao Pu Hui Micro-finance in relation to the contemplated acquisition of 60% equity interests in Hangzhou Xing Yao Pu Hui Micro-finance at a maximum consideration of RMB133.68 million. Such equity transfer agreement is subject to the approval by relevant authorities.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining a high standard of corporate governance and protecting the interests of its 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 (the “**Code Provisions**”) of the Corporate Governance Code (“**CG Code**”) set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 June 2016, the Company has fully complied with the Code Provisions.

## **MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS (THE “MODEL CODE”)**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for carrying out securities transactions of the Company by the Directors. After specific enquiry with all members of the Board, it was confirmed that they have complied with the relevant standards stipulated in the Model Code throughout the six months ended 30 June 2016.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

For the six months ended 30 June 2016, the Group has not purchased, sold or redeemed any of the Company’s listed securities.

## **DIVIDENDS**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016.

## **EVENTS AFTER THE REPORTING PERIOD**

### **Issuance of 2016 Placement Debt for Micro-loan Company**

On 4 July, 11 July, 18 July, 20 July and 25 July 2016, the Company continued to issue its private domestic bonds in the PRC, namely 2016 Placement Debt for Micro-loan Company of Zuoli Kechuang Micro-finance Company Limited (fourth tranche-1, fourth tranche-2, fifth tranche-1, fifth tranche-2, sixth tranche-1 and sixth tranche-2). The principal amount of each of the sub-tranches was RMB25,000,000, with a term of six months, a nominal value and issue price of RMB100 and an annualized interest rate of 6%. The proceeds from issuance of the bonds will be used for replenishing liquidity and for granting loans.

### **Discloseable Transaction**

On 15 August 2016, the Company entered into the sale and purchase agreement (the “Sale and Purchase Agreement”) with each of Hangzhou Qian Chao Chemical Co., Ltd\* (杭州錢潮化工有限公司), Hangzhou Yu Bao Electric Co., Ltd\* (杭州浴寶電器有限公司), Hangzhou Xin Ye Zhi Gai Co., Ltd\* (杭州欣業制蓋有限公司), Hangzhou Xing Yao Electric Power Engineering Co., Ltd\* (杭州興耀電力工程有限公司), Hangzhou Bo Fan Technology Co., Ltd\* (杭州博凡科技有限公司), Lin An City International Trade Building Co., Ltd\* (臨安市國貿大廈有限公司), Wang Xinyi\* (王新義), and four other individual shareholders (together, the “Vendors”) who each held as to less than 5.00%, of the equity interests in Hangzhou Xing Yao Pu Hui Micro-

finance and Hangzhou Xing Yao Construction Group Co., Ltd\* (杭州興耀建設集團有限公司) (being one of the non-selling shareholders of Hangzhou Xing Yao Pu Hui Micro-finance and the receiving agent of the Vendors).

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

The Hangzhou Xing Yao Pu Hui Micro-finance is a licensed micro-finance company established in Hangzhou, Zhejiang Province, the PRC with an approved business scope including the provision of micro and small loans and development, management and financial advisory services to small enterprises in the High-Tech (Binjiang) Administrative District. Upon completion of the proposed acquisition, Hangzhou Xing Yao Pu Hui Micro-finance will become a 60% non-wholly owned subsidiary of the Company, and its financial results will be consolidated into that of the Company.

### **Pledge of Shares by Controlling Shareholders**

On 5 August 2016, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming, being the controlling shareholders of the Company, have pledged 88,000,000, 23,760,000, and 19,301,000 domestic shares in the Company held by each of them, representing approximately 7.46%, 2.01% and 1.64% of the total issued share capital of the Company respectively, in favour of Chang An Wealth Assets Management Limited\* (長安財富資產管理有限公司) (“Chang An”) as guarantee for the Company's obligation under a transfer and repurchase agreement between the Company and Chang An (the “Agreement”). The Pledged Shares represent in aggregate approximately 11.11% of the total issued share capital of the Company as at the date of this announcement.

The Agreement is a financing activity of the Company, and the funding obtained from Chang An under the Agreement will be used by the Company for its loan business. As at the date of this announcement, the pledge of the pledged shares has not been released.

### **AUDIT COMMITTEE**

The Interim Results has been reviewed by the audit committee of the Board.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This Interim Results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zlkcd.cn). The Interim Report for the six months ended 30 June 2016 containing all the information required by the Listing Rules will be dispatched to Shareholders and available on the same websites in due course.

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

Hong Kong, 25 August 2016

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

*\* For identification purposes only*