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

Interim Report
2017

CONTENTS

Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Acting in Concert Agreement"	an agreement entered into by Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy and dated 28 April 2014
"AFR (三農)"	customers engaged in agricultural business and/or rural development activities, and/or customers residing in rural areas
"Bangni Fiber"	浙江邦尼耐火纖維有限公司 (Zhejiang Bangni Refractory Fiber Co., Ltd.*)
"Board" or "Board of Directors"	the board of directors of the Company
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Chang An"	長安財富資產管理有限公司 (Chang An Assets Management Limited*)
"Circular No. 36"	"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 Ministry of Finance and the State Administration of Taxation
"Company", "we", "us" or "our"	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 PRC with limited liability on 18 August 2011 and converted from our Predecessor Company on 28 April 2014, the H Shares of which are listed on the Hong Kong Stock Exchange (stock code: 6866)
"Deqing Yintian"	德清銀天股權投資管理有限公司 (Deqing Yintian Equity Investment and Management Company Limited*)
"Dingsheng Investment"	德清鼎盛股權投資管理有限公司 (Deqing Dingsheng Equity Investment and Management Company Limited*)
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary shares in the capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB by PRC nationals and/or PRC-established entities
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and are listed on the Hong Kong Stock Exchange
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Jinhui Micro-finance"	德清金匯小額貸款有限公司 (Deqing Jinhui Micro-finance Company Limited*)

"Listing Rules"	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"PRC"	the People's Republic of China, but for the purpose of this interim report and for geographical reference only and except where the context requires, otherwise references in this interim report to "China" and the "PRC" do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
"Predecessor Company" or "our Predecessor Company"	德清佐力科創小額貸款有限公司 (Deqing Zuoli Kechuang Micro-finance Company Limited*), a limited liability company established in the PRC on 18 August 2011 and the predecessor of the Company
"Puhua Energy"	德清普華能源有限公司 (Deqing Puhua Energy Company Limited*)
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Shareholder(s)"	shareholders of the Company
"SME(s)"	small and medium-sized enterprise(s), 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)
"Supervisor(s)"	the supervisor(s) of the Company
"VAT"	value-added tax
"Xingyao Micro-finance"	杭州市高新區(濱江)興耀普匯小額貸款有限公司 (Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co. Ltd.*)
"Zuoli Holdings"	佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*)

* *For identification purpose only*

Corporate Information

DIRECTORS

Executive Directors

Mr. Yu Yin *(Chairman)*
Mr. Zheng Xuegen *(Vice-Chairman)*
Mr. Yang Sheng *(Vice-Chairman)*
Mr. Hu Haifeng

Non-executive Director

Mr. Pan Zhongmin (formerly known as Pan Zhongming)

Independent non-executive Directors

Mr. Ho Yuk Ming, Hugo
Mr. Jin Xuejun
Ms. Huang Lianxi

SUPERVISORS

Ms. Shen Yamin *(Chairman)*
Mr. Dai Shengqing
Mr. Wang Peijun

AUDIT COMMITTEE

Mr. Ho Yuk Ming, Hugo *(Chairman)*
Mr. Jin Xuejun
Ms. Huang Lianxi

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Jin Xuejun *(Chairman)*
Mr. Yu Yin
Mr. Ho Yuk Ming, Hugo

NOMINATION COMMITTEE

Ms. Huang Lianxi *(Chairman)*
Mr. Yu Yin
Mr. Jin Xuejun

LOAN APPROVAL COMMITTEE

Mr. Hu Haifeng *(Chairman)*
Mr. Zheng Xuegen
Ms. Fei Xiaofang
Mr. Huang Chenjiang
Ms. Hu Fangfang

COMPANY SECRETARY

Ms. Ho Wing Yan *(ACIS, ACS(PE))*

AUTHORISED REPRESENTATIVES

Mr. Yu Yin
Ms. Ho Wing Yan *(ACIS, ACS(PE))*

REGISTERED OFFICE

No. 57–67, Dongsheng Road
Wukang Road
Deqing County
Zhejiang
PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 57–67, Dongsheng Road
Wukang Road
Deqing County
Zhejiang
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

33rd Floor, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

COMPANY'S WEBSITE

www.zlkcxd.cn

STOCK CODE

6866

AUDITOR

KPMG
Certified Public Accountants

LEGAL ADVISERS

ONC Lawyers *(as to Hong Kong laws)*
Dacheng Law Offices (Dacheng Shanghai) *(as to PRC laws)*

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

Bank of China (Deqing Gui Hua Cheng Sub-branch)
Nos. 245 to 253 South Quyuan Road
Wukang Road, Deqing County
Zhejiang
PRC

Management Discussion and Analysis

INDUSTRY OVERVIEW

We commenced our nationwide internet loan business in the PRC and our offline business is mainly conducted in Deqing County, Huzhou City of 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 international 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 (長三角金融後台基地)" 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 facilitates the development of the local financial services sector.

Competition within the microfinance industry in Zhejiang is extremely intense. As of 30 June 2017, the number of microfinance companies in Zhejiang reached 339. The average registered capital per microfinance company amounted to RMB187 million. The average loan balance per microfinance company amounted to RMB210 million.

The microfinance industry in Deqing has also seen rapid growth. As of 30 June 2017, apart from the Group, there were three other microfinance companies in Deqing. The accumulated aggregate amount of loans granted by the Group and these three microfinance companies for the six months ended 30 June 2017 reached RMB6,137 million, out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 86.9%; while the aggregate loan balance of the Group and these three microfinance companies as of 30 June 2017 reached RMB3,323 million, out of which the loan balance of the Group accounted for approximately 62.2%.

BUSINESS OVERVIEW

As at 30 June 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 key customers primarily consist of customers engaged in AFR (三農), the SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products as well as customers of internet micro-loan which we cultivate together with other trustworthy internet enterprises.

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

Due to the expansion of our business and the continuing strong demand for financing by our customers, our gross loan balance increased from RMB1,889.5 million as at 31 December 2016 to RMB2,067.7 million as at 30 June 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 30 June 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)	**2,067,659**	1,889,520
Leverage ratio[(1)]	**1.75**	1.60

Note:

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

For the six months ended 30 June 2016 and 30 June 2017, our average interest rates for loans granted were 15.1% and 14.5%, respectively. The decrease in our average loan interest rate during the aforesaid period was mainly resulting from the imposition of VAT on our reported interest income in lieu of business tax since 1 May 2016 in compliance with Circular No. 36, which resulted in a lower reported interest income as our interest income has since been recognized net of applicable VAT.

We primarily served customers engaged in the SMEs and micro enterprises, customers engaged in AFR (三農) in Huzhou and Hangzhou and nationwide online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products as well as customers of internet micro-loans. As of 31 December 2016 and 30 June 2017, we served over 15,615 and 68,302 customers, respectively. During the six months ended 30 June 2017, our loan customers increased dramatically primarily as a result of our joint development of internet micro-finance business with trustworthy internet enterprises, which have accumulated numerous customers.

As of 31 December 2016 and 30 June 2017, 97.7% and 99.5% of our loan contracts were of loan amount of up to RMB1 million, respectively. The proportion of loans with amount up to RMB1 million increased, which was primarily attributable to our joint development of internet micro-finance business with trustworthy internet enterprises.

For the six months ended 30 June 2016 and 30 June 2017, the total amount of loans we granted were RMB1,626.3 million and RMB5,333.9 million, respectively.

Loan Portfolio by Security

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

	As of 30 June 2017 RMB'000	%	As of 31 December 2016 RMB'000	%
Unsecured loans[1]	**346,635**	**16.8**	170,888	9.0
Guaranteed loans	**1,678,366**	**81.2**	1,651,250	87.4
Collateralized loans	**42,608**	**2.0**	59,602	3.2
Pledged loans	**50**	**0.0**	7,780	0.4
Total gross outstanding loans and advances to customers	**2,067,659**	**100.0**	1,889,520	100.0

Note:

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

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

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

	As of 30 June 2017 RMB'000	%	As of 31 December 2016 RMB'000	%
Normal	**2,026,128**	**98.0**	1,757,647	93.0
Special mention	**10,241**	**0.5**	104,888	5.6
Substandard	**3,513**	**0.2**	6,567	0.3
Doubtful	**17,336**	**0.8**	15,388	0.8
Loss	**10,441**	**0.5**	5,030	0.3
Total gross outstanding loans and advances to customers	**2,067,659**	**100.0**	1,889,520	100.0

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

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

	As of 30 June 2017	As of 31 December 2016
Impaired loan ratio[1]	**1.5%**	1.4%
Balance of impaired loans (RMB'000)	**31,290**	26,985
Gross outstanding loans and advances to customers (RMB'000)	**2,067,659**	1,889,520
Provision coverage ratio[2]	**268%**	305%
Allowances for impairment losses[3] (RMB'000)	**83,753**	82,356
Balance of impaired loans (RMB'000)	**31,290**	26,985
Provision for impairment losses ratio[4]	**4.1%**	4.4%
Balance of overdue loans (RMB'000)	**40,200**	31,037
Gross outstanding loans and advances to customers (RMB'000)	**2,067,659**	1,889,520
Overdue loan ratio[5]	**1.94%**	1.64%

Notes:

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

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

(3) *Allowances for impairment losses reflect our management's estimate of the probable losses 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 balance of overdue loans divided by the balance of the gross outstanding loans and advances to customers.*

Total impaired loans

Our impaired loans increased slightly from RMB27.0 million as of 31 December 2016 to RMB31.3 million as of 30 June 2017, which was mainly due to the increase of our loan balance as at 30 June 2017.

Total overdue loans

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

	At 30 June 2017	At 31 December 2016
Unsecured loans	**19,674**	12,253
Guaranteed loans	**14,403**	9,897
Collateralized loans	**6,123**	8,887
	40,200	31,037

We had overdue loans of RMB31.0 million and RMB40.2 million as of 31 December 2016 and 30 June 2017, respectively, accounting for 1.64% and 1.94% of our gross loan balance as of the same dates. As of 17 August 2017, approximately RMB1.02 million out of the overdue loans as at 30 June 2017 was recovered.

FINANCIAL OVERVIEW

Net interest income

We generate interest income from loans we provide to customers and from our bank deposits. Our net interest income is net of interest and commission expenses. We incur interest and commission expenses on banks and other borrowings, which are 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 periods indicated:

	For six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest income from		
Loans and advances to customers	**144,273**	117,651
Bank deposits	**411**	617
Total interest income	**144,684**	118,268
Interest and commission expenses from		
Borrowings from banks	**(9,672)**	(4,223)
Borrowings from non-bank financial institutions	**(12,433)**	(697)
Bank charges	**(55)**	(28)
Total interest and commission expenses	**(22,160)**	(4,948)
Net interest income	**122,524**	113,320

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 30 June 2016 and 30 June 2017, our aggregate gross loan balance was RMB1,602.1 million and RMB2,067.7 million, respectively, while for the six months ended 30 June 2016 and 2017, our average interest rates for loans were 15.1% and 14.5%, respectively. The decrease in our average interest rate for loans during the six months ended 30 June 2017 was mainly due to the imposition of VAT on our reported interest income in lieu of business tax in compliance with Circular No. 36 on 1 May 2016, which resulted in a lower reported interest income as our interest income has since then been recognised net of applicable VAT.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions as well as bank charges, were RMB4.9 million and RMB22.2 million for the six months ended 30 June 2016 and 2017, respectively. We incurred interest expenses primarily on the payment of interest-bearing borrowings and debt securities issued, and these borrowings were principally applied to expand our loan business.

Our interest-bearing borrowings balance amounted to RMB150 million and RMB487.5 million as at 30 June 2016 and 30 June 2017 respectively. Our carrying balance of debt securities issued was RMB149 million and RMB179.5 million as at 30 June 2016 and 30 June 2017, respectively. During the six months ended 30 June 2017, our interest expense increased, which was mainly attributable to the increase of interest-bearing borrowings and debt securities issued.

Our net interest income for the six months ended 30 June 2016 and 2017 were RMB113.3 million and RMB122.5 million, respectively.

Other income

Our other income for the six months ended 30 June 2016 and 2017 were RMB19,000 and RMB3.7 million, respectively. Our other income in the six months ended 30 June 2017 has increased, which was mainly due to the purchase of financial products to obtain investment income.

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 estimated loss and the actual loss.

For the six months ended 30 June 2016 and 2017, our impairment losses were RMB–0.6 million and RMB1.3 million, respectively.

Administrative expenses

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

	For six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Business tax and surcharge	**1,037**	4,125
Staff costs	**8,669**	5,051
Office expenditures and travel expenses	**2,309**	1,575
Operating lease charges	**605**	444
Depreciation and amortization expenses	**1,062**	989
Consulting and professional service fees	**5,220**	2,947
Business development expenses	**726**	397
Advertising expenses	**2,983**	2,210
Others	**906**	1,055
Total administrative expenses	**23,517**	18,793

Our business tax and surcharge mainly include: (i) business tax; (ii) city maintenance and construction tax; and (iii) education surcharge. For the six months ended 30 June 2016 and 30 June 2017, our business tax and surcharge were RMB4.1 million and RMB1.0 million, respectively, accounted for 21.9% and 4.4% of our total administrative expenses, respectively. Our business tax and surcharge has decreased during the aforesaid period, which was primarily a result of the imposition of VAT on our reported interest income in lieu of business tax under Circular No. 36, where we were no longer required to pay business tax since 1 May 2016.

Our staff costs accounted for 26.9% and 36.9% of the total administrative expenses for the six months ended 30 June 2016 and 30 June 2017, respectively. Our staff costs increased from RMB5.1 million for the six months ended 30 June 2016 to RMB8.7 million for the six months ended 30 June 2017, which was mainly attributable to: (i) additional employees we hired, due to the expansion of our loan business; (ii) employment of the existing staff from Xingyao Micro-finance which we acquired in November 2016.

Income tax

Our income taxes for the six months ended 30 June 2016 and 30 June 2017 were RMB23.8 million and RMB26.6 million, respectively, and our effective tax rates were 25.0% and 26.2%, respectively.

Profit for the period

As a result of the foregoing, we had profit of RMB71.3 million and RMB74.8 million for the six months ended 30 June 2016 and 30 June 2017, respectively.

Liquidity and capital resources

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

As at 30 June 2017, the aggregate of our balance of interest-bearing borrowings and balance of borrowings from debt securities issued was approximately RMB667.0 million (31 December 2016: RMB528.3 million). The balance of these borrowings at the end of both periods will expire within one year and both are at fixed interest rates.

WORKING CAPITAL MANAGEMENT

Cash flows

Net cash used in operating activities

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

We account equity contributions from the Shareholders, interest-bearing borrowing 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 six months ended 30 June 2017 was RMB43.2 million. Our net cash used in operating activities reflect the followings: (i) our profit before tax of RMB101.4 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB1.3 million, depreciation and amortization of RMB1.1 million, interest expenses of RMB22.1 million, investment income of RMB2.0 million; (ii) the effect of changes in working capital, primarily including an increase in (total) loans and advances to customers of RMB178.0 million, a decrease in interest receivable and other assets of RMB6.4 million, and an increase in accruals and other payables of RMB27.0 million; and (iii) income tax paid of RMB22.5 million.

Net cash generated from/(used in) investing activities

For the six months ended 30 June 2017, our net cash inflow generated from investing activities was RMB25.1 million. Our net cash inflow generated from investing activities mainly consisted of the followings: (i) net inflow amount paid for redemption of wealth management products after deducting purchase of RMB42.4 million, (ii) the receipt of RMB2.0 million from wealth management products income; which was partially offset by (i) payment for the acquisition of Xingyao Micro-finance of RMB9.5 million, (ii) payment for the purchase of real estates, equipment and repairment of RMB3.9 million, (iii) payments of dividends payable to original shareholder prior to the payment for the acquisition of Xingyao Micro-finance of RMB5.9 million.

Net cash generated from financing activities

For the six months ended 30 June 2017, our net cash inflow generated from financing activities was RMB116.9 million. Our net cash inflow generated from financing activities consisted of the followings: (i) the receipt of RMB270 million from financing by interest-bearing borrowings; (ii) the receipt of RMB175 million from financing by issue of debt securities. Partly offset by: (i) repayment of financing by issue of debt securities amounting to RMB275 million; (ii) repayment of financing by bank borrowings of RMB30 million; (iii) payment of interest on borrowings of RMB22.5 million; (iv) payment of cash dividend from Jinhui Micro-finance to minority shareholders amounting to RMB0.6 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 2016 and 30 June 2017, total cash and cash equivalents amounted to RMB29.2 million and RMB128.0 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:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Cash in hand	**2**	2
Cash at banks	**31,154**	23,152
Others	**96,871**	6,054
Cash and cash equivalents	**128,027**	29,208

The increase in our cash and cash equivalents from RMB29.2 million as of 31 December 2016 to RMB128.0 million as of 30 June 2017 was primarily due to the fact that we retained more other monetary funds on 30 June 2017 due to the issuance of loans through the third party payment platform China Union Pay electronic payment in early July 2017.

Restricted Deposits

Our restricted deposits represented bank deposits of financing pledge under the transfer and repurchase agreements of RMB15.0 million.

Interest receivables

Our interest receivables as at 31 December 2016 and 30 June 2017 were RMB19.0 million and RMB15.2 million, respectively. The decrease in our interest receivables was primarily due to the fact in the first half of 2017, there were more customers repaying their loans on which interests were payable upon repayment of the principal amount, thereby driven down the 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 types as of the dates indicated:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Corporate loans[1]	**481,860**	547,212
Retail loans	**1,066,409**	1,024,138
Internet loans	**519,390**	318,170
Gross loans and advances to customers	**2,067,659**	1,889,520
allowances for impairment losses		
— Collectively assessed	**(60,013)**	(64,884)
— Individually assessed	**(23,740)**	(17,472)
Total allowances for impairment losses	**(83,753)**	(82,356)
Net loans and advances to customers	**1,983,906**	1,807,164

Note:

(1) Include loans to sole proprietors.

As at 30 June 2017, our gross loans and advances to customers increased to RMB2,067.7 million, which was mainly resulting from our expanded business scale.

We focus on providing short-term loans to minimise 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 RMB31.0 million and RMB40.2 million as at 31 December 2016 and 30 June 2017, respectively, accounting for 1.64% and 1.94% 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:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Unsecured loans[1]	**346,635**	170,888
Guaranteed loans	**1,678,366**	1,651,250
Collateralized loans	**42,608**	59,602
Pledged loans	**50**	7,780
Gross loans and advances to customers	**2,067,659**	1,889,520

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 87.4% and 81.2% of our gross loans and advances to customers as at 31 December 2016 and 30 June 2017, respectively.

Other Assets

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Prepaid principal and interests of debts issued	**25,744**	25,798
Prepayment	**1,968**	5,424
Prepaid income tax[1]	**—**	205
Others	**1,276**	232
	28,988	31,659

Note:

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

Accruals and other payables

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Accrued staff cost	**2,279**	3,453
Interest payable	**1,327**	503
Value-added tax payable	**1,275**	978
Acquisition consideration payable	**506**	9,966
Dividends payable	**—**	5,917
Tax and surcharges and other taxation payable	**264**	150
Other payables	**22,537**	7,866
	28,188	28,833

Note:

(1) Dividends payable refers to dividends payable to original shareholders, to be paid by Xingyao Micro-finance prior to the acquisition as at 31 December 2016.

Current tax liabilities

Our current tax liabilities, which represent payables of our income tax, were RMB11.6 million and RMB32.5 million, as at 31 December 2016 and 30 June 2017, respectively.

Capital commitments

As of 30 June 2017, we had no capital commitments (31 December 2016: nil).

Key Financial Indicators

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

	For the six months ended 30 June 2017	For the year ended 31 December 2016
Return on weighted average equity (%)	**10.1**[2]	10.6
Average return on assets (%)[1]	**7.0**[2]	8.5

Notes:

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

(2) Calculates by dividing the actual number by 6 and multiplying by 12 on the annualised basis.

Gearing Ratio

	At 30 June 2017	At 31 December 2016
Gearing ratio (%)[1]	**36.4**	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 equity attributable to equity Shareholders as at the end of the periods.

Our gearing ratio increased from 35.4% as of 31 December 2016 to 36.4% as of 30 June 2017, mainly because of the expansion of financial leverage given the strong demand for our loans. As of 30 June 2017, although the balance of debt securities issued decreased by RMB98.8 million, our interest-bearing borrowings increased by RMB237.5 million.

Related party transactions

For the six months ended 30 June 2017, the Company leased a property from Mr. Yu Yin and paid rental of approximately RMB258,000; and leased a property from the younger sister of Mr. Yu Yin, and paid rental of RMB55,000. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules and were fully exempted from the 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 and other related parties had guaranteed some of our interest-bearing borrowings. The balance of interest-bearing borrowings amounted to RMB487.5 million as at 30 June 2017. Mr. Yu Yin provided guarantee of RMB327.5 million for the balance of interest-bearing borrowings, and other related parties provided guarantee of RMB487.5 million for the balance of interest-bearing borrowings. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules and were fully exempted from the Shareholders' approval, annual review and all disclosure requirements.

During the reporting period, Mr. Yu Yin and other related parties had provided guarantees for the Company's issuance of debt securities in the Zhejiang Equities Exchange Centre (浙江省股權交易中心). As at 30 June 2017, the balance of debt securities issued amounted to RMB179.5 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules and were fully exempted from the Shareholders' approval, annual review and all disclosure requirements.

Indebtedness

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

Item	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Interest-bearing borrowings	**487,508**	250,000
Debt securities issued	**179,464**	278,283
Total	**666,972**	528,283

Our interest-bearing borrowings and debt securities issued were the borrowings required for our business expansion.

Off-balance sheet arrangements

As of 30 June 2017, we did not have any off-balance sheet arrangements (30 June 2016: nil).

EMPLOYMENT AND EMOLUMENTS

As at 30 June 2017, the Group had approximately 133 employees (30 June 2016: 82). 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 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 held as at 30 June 2017.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no acquisition or disposal of subsidiaries, associates or joint ventures for the six months ended 30 June 2017.

CHARGE ON GROUP ASSETS

Our restricted deposits are the bank deposit of RMB15.0 million for the financing of RMB150.0 million at an interest rate of 6.60% per annum under the transfer and repurchase agreement. Save as the disclosed, as at 30 June 2017, the Group did not have any charges on its assets (31 December 2016: RMB:15.0 million).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

As at the date of this report, the Group did not have any concrete plan for material investments.

Other than normal bank loans we obtain from commercial banks, the financings on the platform of the Zhejiang Equities Exchange Centre (浙江省股權交易中心) and rights transfer and repurchase and issue debt financial instruments and other financing which we may consider, we do not expect to have any material external debt financing plan in the short term.

Save as the disclosed above, the Group had no future plans for material investments and expected sources of funding as at 30 June 2017.

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 30 June 2017 were denominated in the respective Group companies' functional currencies.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities (31 December 2016: nil).

PROSPECTS

With the establishment of China Microfinance Companies Association (中國小額貸款公司協會) and promulgation of the Classification Standards of Financial Enterprises (《金融業企業劃型標準規定》), the financing intermediary role played by microfinance companies in the PRC is being increasingly recognized by the relevant authorities and the microfinance 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 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 enjoy economic stability and provide us with a relatively conductive market environment to grow our market share as we continue to introduce innovative loan products, broaden business channels, enhance our market penetration and increase our competitive advantages by utilizing the advantage of our capital base.

At the same time, our acquisition of Jinhui Micro-finance and establishment of two operation outlets in villages and towns 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 has been further enhanced as we acquired Xingyao Micro-finance located in Hangzhou City, Zhejiang province of the PRC which helped expanding 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 across the country, and break through the geographical limitation for our business.

In January 2016, the Company commenced a strategic cooperation with Yuanbaopu (元寶鋪), a finance big data service platform. The parties established an exclusive partnership within Zhejiang Province, Jiangsu Province and Shanghai City, focusing on the development of pure credit-based micro-finance loan business. The parties endeavour to, without limitation, 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 and identification of strategic targets, etc.

On such basis, the Company and other trustworthy internet enterprises commence internet micro-finance loan business.

Review report to the board of directors of Zuoli Kechuang Micro-finance Company Limited
(a joint stock Company incorporated in the People's Republic of China (the "PRC") with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 22 to 50 which comprises the consolidated statement of financial position of Zuoli Kechuang Micro-finance Company Limited (the "Company") and its subsidiaries (together "the Group") as of 30 June 2017 and the related consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

17 August 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2017 — unaudited
(Expressed in Renminbi ("RMB")'000, unless otherwise stated)

	Note	Six months ended 30 June 2017 RMB'000	 2016 RMB'000
Interest income		**144,684**	118,268
Interest and commission expenses		**(22,160)**	(4,948)
Net interest income	*3*	**122,524**	113,320
Other net income	*4*	**3,689**	19
(Charge)/reversal of impairment losses		**(1,294)**	596
Administrative expenses		**(23,517)**	(18,793)
Profit before taxation	*5*	**101,402**	95,142
Income tax	*6*	**(26,570)**	(23,826)
Profit and total comprehensive income for the period		**74,832**	71,316
Attributable to:			
Equity shareholders of the Company		**71,241**	70,895
Non-controlling interests		**3,591**	421
Profit for the period		**74,832**	71,316
Earnings per share			
Basic and diluted (RMB)	*7*	**0.06**	0.06

The notes on pages 28 to 50 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2017 — unaudited

(Expressed in RMB'000, unless otherwise stated)

	Note	**At 30 June 2017 RMB'000**	At 31 December 2016 RMB'000
Assets			
Cash and cash equivalents	*8*	**128,027**	29,208
Restricted deposits		**15,000**	15,000
Interest receivables		**15,219**	19,033
Loans and advances to customers	*9*	**1,983,906**	1,807,164
Fixed assets	*10*	**20,022**	18,983
Intangible assets		**1,861**	36
Goodwill		**22,502**	22,502
Deferred tax assets	*11*	**20,771**	16,981
Available-for-sale financial assets	*12*	**30,220**	72,700
Other assets	*13*	**28,988**	31,659
Total assets		**2,266,516**	2,033,266
Liabilities			
Interest-bearing borrowings	*14*	**487,508**	250,000
Accruals and other payables	*15*	**28,188**	28,833
Current taxation		**32,507**	11,575
Debt securities issued	*16*	**179,464**	278,283
Total liabilities		**727,667**	568,691
NET ASSETS		**1,538,849**	1,464,575

The notes on pages 28 to 50 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2017 — unaudited

(Expressed in RMB'000, unless otherwise stated)

	Note	**At 30 June 2017 RMB'000**	At 31 December 2016 RMB'000
CAPITAL AND RESERVES	*17*		
Share capital		**1,180,000**	1,180,000
Reserves		**260,365**	189,124
Total equity attributable to equity shareholders of the Company		**1,440,365**	1,369,124
Non-controlling interests		**98,484**	95,451
TOTAL EQUITY		**1,538,849**	1,464,575

Approved and authorised for issue by the board of directors on 17 August 2017.

Yu Yin
Chairman of the Board

Hu Haifeng
Executive Director

Company chop

The notes on pages 28 to 50 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2017 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000 *Note 17(b)*	Surplus reserve RMB'000 *Note 17(c)(i)*	General reserve RMB'000 *Note 17(c)(ii)*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016	1,180,000	13,508	10,984	183,685	1,388,177	7,416	1,395,593
Changes in equity for the six months ended 30 June 2016:							
Profit and total comprehensive income for the period	—	—	—	70,895	70,895	421	71,316
Dividends approved in respect of the previous years *(Note 17(a))*	—	—	—	(165,200)	(165,200)	—	(165,200)
Balance at 30 June 2016	1,180,000	13,508	10,984	89,380	1,293,872	7,837	1,301,709
Balance at 30 June 2016 and 1 July 2016	1,180,000	13,508	10,984	89,380	1,293,872	7,837	1,301,709
Changes in equity for the six months ended 31 December 2016:							
Acquisition of subsidiary	—	—	—	—	—	83,646	83,646
Profit and total comprehensive income for the period	—	—	—	75,252	75,252	3,968	79,220
Appropriation to surplus reserve	—	11,614	—	(11,614)	—	—	—
Appropriation to general reserve	—	—	24,797	(24,797)	—	—	—
Balance at 31 December 2016	1,180,000	25,122	35,781	128,221	1,369,124	95,451	1,464,575

The notes on pages 28 to 50 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2017 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000 *Note 17(b)*	Surplus reserve RMB'000 *Note 17(c)(i)*	General reserve RMB'000 *Note 17(c)(ii)*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	1,180,000	25,122	35,781	128,221	1,369,124	95,451	1,464,575
Changes in equity for the six months ended 30 June 2017:							
Profit and total comprehensive income for the period	–	–	–	71,241	71,241	3,591	74,832
Dividends approved and paid in respect of the previous years	–	–	–	–	–	(558)	(558)
Balance at 30 June 2017	1,180,000	25,122	35,781	199,462	1,440,365	98,484	1,538,849

The notes on pages 28 to 50 form part of this interim financial report

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2017 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Note	Six months ended 30 June 2017 RMB'000	2016 RMB'000
Operating activities			
Cash used in operations		**(20,755)**	(45,128)
PRC income tax paid		**(22,472)**	(29,183)
Net cash used in operating activities		**(43,227)**	(74,311)
Investing activities			
Proceeds from disposal of investments		**3,337,359**	—
Proceeds from disposal of fixed assets		**3**	—
Payment for the purchase of fixed assets and intangible assets		**(3,925)**	(2,480)
Payments on acquisition of subsidiary		**(9,460)**	—
Payments on acquisition of investments		**(3,292,917)**	(42,770)
Other cash flows arising from investing activities		**(5,917)**	—
Net cash generated from/(used in) investing activities		**25,143**	(45,250)
Financing activities			
Proceeds from new bank loans		**90,000**	50,000
Proceeds from debt securities issued		**175,000**	148,351
Proceeds from other borrowings from third parties		**180,000**	—
Repayment of bank loans		**(30,000)**	—
Repayment of debt securities issued		**(275,000)**	—
Interest paid		**(22,537)**	(4,073)
Dividends paid to non-controlling interests		**(558)**	—
Net cash generated from financing activities		**116,905**	194,278
Net increase in cash and cash equivalents		**98,821**	74,717
Cash and cash equivalents at 1 January	*8*	**29,208**	82,572
Effect of foreign exchange rates changes		**(2)**	—
Cash and cash equivalents at 30 June	*8*	**128,027**	157,289

The notes on pages 28 to 50 form part of this interim financial report.

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 17 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

3 NET INTEREST INCOME

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest income arising from		
Loans and advances to customers	**144,273**	117,651
Cash at banks	**411**	617
	144,684	118,268
Interest and commission expenses arising from		
Borrowings from banks	**(9,672)**	(4,223)
Borrowings from non-bank institutions	**(12,433)**	(697)
Bank charges	**(55)**	(28)
	(22,160)	(4,948)
Net interest income	**122,524**	113,320

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 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.

4 OTHER NET INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Investment income from available-for-sale financial assets	**1,962**	—
Gains on disposal of loans and advances to customers	**1,084**	—
Government grants	**660**	18
Losses on disposal of fixed assets	**(15)**	—
Exchange (losses)/gains	**(2)**	1
Total	**3,689**	19

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Salaries, bonuses and allowance	**5,892**	3,930
Contribution to retirement scheme	**416**	251
Social insurance and other benefits	**2,361**	870
Total	**8,669**	5,051

The Group is required to participate in the pension scheme organised by the municipal government of Huzhou and Hangzhou City, Zhejiang Province whereby the Group is required to pay annual contributions for PRC based employees at certain rate of the standard wages determined by the relevant authorities in the PRC during the 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	
	2017	2016
	RMB'000	RMB'000
Amortization of intangible assets	**120**	—
Depreciation expenses *(Note 10)*	**942**	989
Operating lease charges in respect of building	**605**	444
Auditors' remuneration	**891**	859

6 INCOME TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax for the period	**29,377**	21,145
Under-provision in respect of prior years	**983**	—
Deferred tax *(Note 11)*		
Origination and reversal of temporary differences	**(3,790)**	2,681
Total	**26,570**	23,826

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 six months ended 30 June 2017 (six months ended 30 June 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 six months ended 30 June 2017 and 30 June 2016.*

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB71.2 million (six months ended 30 June 2016: RMB70.9 million) and the weighted average of 1,180,000,000 ordinary shares (six months ended 30 June 2016: 1,180,000,000) in issue during the interim period.

There were no dilutive potential ordinary shares during each of the six months ended 30 June 2017 and 30 June 2016, and therefore, diluted earnings per share are the same as the basic earnings per share.

8 CASH AND CASH EQUIVALENTS

	At 30 June 2017	At 31 December 2016
	RMB'000	RMB'000
Cash in hand	**2**	2
Cash at banks	**31,154**	23,152
Others	**96,871**	6,054
Cash and cash equivalents in the cash flow statement	**128,027**	29,208

9 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Corporate loans	**481,860**	547,212
Retail loans	**1,066,409**	1,024,138
Internet loans	**519,390**	318,170
Gross loans and advances to customers	**2,067,659**	1,889,520
Less: Allowances for impairment losses		
— Collectively assessed	**(60,013)**	(64,884)
— Individually assessed	**(23,740)**	(17,472)
Total allowances for impairment losses	**(83,753)**	(82,356)
Net loans and advances to customers	**1,983,906**	1,807,164

(b) Analysed by type of collateral

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Unsecured loans	**346,635**	170,888
Guaranteed loans	**1,678,366**	1,651,250
Collateralized loans	**42,608**	59,602
Pledged loans	**50**	7,780
Gross loans and advances to customers	**2,067,659**	1,889,520
Less: Allowances for impairment losses		
— Collectively assessed	**(60,013)**	(64,884)
— Individually assessed	**(23,740)**	(17,472)
Total allowances for impairment losses	**(83,753)**	(82,356)
Net loans and advances to customers	**1,983,906**	1,807,164

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Analysed by industry sector

	At 30 June 2017		At 31 December 2016	
	RMB'000	%	RMB'000	%
Agriculture, forestry, animal husbandry and fishery	**127,760**	**6%**	98,720	6%
Construction	**92,300**	**4%**	81,300	4%
Wholesale and retail	**84,707**	**4%**	154,889	8%
Manufacturing	**62,505**	**3%**	80,303	4%
Others	**114,588**	**6%**	132,000	7%
Corporate loans	**481,860**	**23%**	547,212	29%
Retail loans	**1,066,409**	**52%**	1,024,138	54%
Internet loans	**519,390**	**25%**	318,170	17%
Gross loans and advances to customers	**2,067,659**	**100%**	1,889,520	100%
Less: Allowances for impairment losses	**(83,753)**		(82,356)	
Net loans and advances to customers	**1,983,906**		1,807,164	

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	At 30 June 2017				
	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	6,536	1,622	7,022	4,494	19,674
Guaranteed loans	3,693	1,717	7,593	1,400	14,403
Collateralized loans	370	4,900	—	853	6,123
Total	10,599	8,239	14,615	6,747	40,200

	At 31 December 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	3,376	4,200	4,677	—	12,253
Guaranteed loans	4,646	3,754	394	1,103	9,897
Collateralized loans	1,300	—	229	7,358	8,887
Total	9,322	7,954	5,300	8,461	31,037

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.

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	At 30 June 2017		
	Loans and advances for which allowances are collectively assessed RMB'000	Loans and advances for which allowances are individually assessed RMB'000	Total RMB'000
Gross loans and advances to customers	**2,036,369**	**31,290**	**2,067,659**
Less: Allowances for impairment losses	**(60,013)**	**(23,740)**	**(83,753)**
Net loans and advances to customers	**1,976,356**	**7,550**	**1,983,906**

	At 31 December 2016		
	Loans and advances for which allowances are collectively assessed RMB'000	Loans and advances for which allowances are individually assessed RMB'000	Total RMB'000
Gross loans and advances to customers	1,862,535	26,985	1,889,520
Less: Allowances for impairment losses	(64,884)	(17,472)	(82,356)
Net loans and advances to customers	1,797,651	9,513	1,807,164

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Movements of allowances for impairment losses

	Six months ended 30 June 2017		
	Provision for impairment losses which is collectively assessed RMB'000	Provision for impairment losses which is individually assessed RMB'000	Total RMB'000
At 1 January	64,884	17,472	82,356
Charge for the period	—	6,448	6,448
Reversal for the year	(4,871)	(283)	(5,154)
Recoveries of loans and advances written off in previous years	—	103	103
At 30 June	60,013	23,740	83,753

	Year ended 31 December 2016		
	Provision for impairment losses which is collectively assessed RMB'000	Provision for impairment losses which is individually assessed RMB'000	Total RMB'000
At 1 January	54,932	18,022	72,954
Acquisition of subsidiary	10,387	2,065	12,452
Charge for the year	7,696	2,191	9,887
Reversal for the year	(7,692)	(1,415)	(9,107)
Write off	(439)	(4,178)	(4,617)
Recoveries of loans and advances written off in previous years	—	787	787
At 31 December	64,884	17,472	82,356

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Gross balance of loans and advances to customers		
Neither overdue nor impaired	2,026,670	1,858,483
Overdue but not impaired	9,699	4,052
Impaired	31,290	26,985
	2,067,659	1,889,520
Less: Allowances for impairment losses		
Neither overdue nor impaired	(59,116)	(64,560)
Overdue but not impaired	(897)	(324)
Impaired	(23,740)	(17,472)
	(83,753)	(82,356)
Net balance		
Neither overdue nor impaired	1,967,554	1,793,923
Overdue but not impaired	8,802	3,728
Impaired	7,550	9,513
	1,983,906	1,807,164

10 FIXED ASSETS

	Premises 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	1,719	77	31	150	22	1,999
Disposal	—	(94)	—	(39)	—	(133)
At 30 June 2017	15,085	1,166	3,090	1,606	6,210	27,157
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 period	(33)	(59)	(227)	(136)	(487)	(942)
Disposal	—	76	—	39	—	115
At 30 June 2017	(33)	(857)	(1,685)	(726)	(3,834)	(7,135)
Net book value:						
At 30 June 2017	15,052	309	1,405	880	2,376	20,022
At 31 December 2016	13,366	309	1,601	866	2,841	18,983

11 DEFERRED TAX ASSETS

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the period 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	28	(278)	(2,444)	(2,694)
At 31 December 2016 and 1 January 2017	16,473	508	—	16,981
Credited to profit or loss *(Note 6)*	3,412	378	—	3,790
At 30 June 2017	19,885	886	—	20,771

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Wealth management products *(Note)*	**30,220**	72,700

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

13 OTHER ASSETS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Prepaid principal and interests of debts issued	**25,744**	25,798
Prepayment	**1,968**	5,424
Prepaid income tax	**—**	205
Others	**1,276**	232
	28,988	31,659

14 INTEREST-BEARING BORROWINGS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Bank loans *(Notes(i))*		
— Guaranteed by related parties	160,000	100,000
Borrowing from third parties under a repurchase agreement *(Notes (ii))*		
— Guaranteed by related parties	150,000	150,000
Other borrowings from third parties *(Notes (iii))*		
— Guaranteed by related parties	177,508	—
	487,508	250,000

Notes:

(i) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2017 and 31 December 2016, none of the covenants relating to the bank loans had been breached.

(ii) Pursuant to a transfer and repurchase agreement entered into by the Company and an assets management company in the PRC in August 2016, the Company obtained a financing of RMB150.0 million at an interest rate of 6.6% per annum by transferring and repurchasing the beneficial right of certain loans of the Group. The above transaction was guaranteed by certain shareholders by pledging their share interest in the Company.

(iii) In May and June 2017, the Group obtained financings with nominal amount totaling RMB180.0 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 19 June 2018. The above transactions were guaranteed by certain shareholders and related parties.

15 ACCRUALS AND OTHER PAYABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Accrued staff cost	2,279	3,453
Interest payable	1,327	503
Value-added tax payable	1,275	978
Acquisition consideration payable	506	9,966
Dividends payable	—	5,917
Tax and surcharges and other taxation payable	264	150
Other payables	22,537	7,866
	28,188	28,833

16 DEBT SECURITIES ISSUED

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Debt securities at amortized cost *(Note)*	**179,464**	278,283

Note: Debt securities with nominal value totaling RMB175.0 million and a term of six months were issued in January and February 2017 respectively. The coupon rate is 6.0% per annum.

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	
	2017 RMB'000	2016 RMB'000
Final dividend in respect of the previous financial year, approved to equity shareholders of the Company during the following interim period, of nil per share (six months ended 30 June 2016: RMB0.14 per share)	**–**	165,200

(b) Share capital

As at 30 June 2017, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1.0 each.

(c) Nature and purpose of reserves

(i) 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.

17 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Nature and purpose of reserves (Continued)

(ii) General 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.

18 FAIR VALUES MEASUREMENT 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 2017			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Available-for-sale financial assets				
Wealth management products	**–**	**30,220**	**–**	**30,220**

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

(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.

18 FAIR VALUES MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(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 were not materially different from their fair values at 30 June 2017 and 31 December 2016.

19 FINANCIAL RISK MANAGEMENT

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.

(Expressed in RMB'000, unless otherwise stated)

19 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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 customers undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to a particular industry or geographic location. As the Group mainly conducts micro-finance business in Huzhou and Hangzhou City, Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions. At 30 June 2017, 1.45% (31 December 2016: 1.96%) and 5.51% (31 December 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 evaluations 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.

19 FINANCIAL RISK MANAGEMENT (Continued)

(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:

	At 30 June 2017					
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	128,027	–	–	–	128,027	128,027
Restricted deposits	–	15,293	–	–	15,293	15,000
Interest receivables	2,262	7,660	5,297	–	15,219	15,219
Loans and advances to customers	40,200	515,314	1,673,388	16,930	2,245,832	1,983,906
Available-for-sale financial assets	30,220	–	–	–	30,220	30,220
Other assets	1,276	–	–	–	1,276	1,276
Total	201,985	538,267	1,678,685	16,930	2,435,867	2,173,648
Liabilities						
Interest-bearing borrowings	–	(223,048)	(282,197)	–	(505,245)	(487,508)
Accruals and other payables	(12,048)	(670)	(11,652)	–	(24,370)	(24,370)
Debt securities issued	–	(128,719)	(51,488)	–	(180,207)	(179,464)
Total	(12,048)	(352,437)	(345,337)	–	(709,822)	(691,342)
	189,937	185,830	1,333,348	16,930	1,726,045	1,482,306

19 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

	At 31 December 2016					
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	29,208	—	—	—	29,208	29,208
Restricted deposits	—	—	15,293	—	15,293	15,000
Interest receivables	216	13,384	5,433	—	19,033	19,033
Loans and advances to customers	31,037	527,167	1,459,963	21,424	2,039,591	1,807,164
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.

19 FINANCIAL RISK MANAGEMENT (Continued)

(c) Interest risk (Continued)

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Fixed interest rate		
Financial assets		
— Restricted deposits	**15,000**	15,000
— Loans and advances to customers	**1,983,906**	1,807,164
Financial liabilities		
— Interest-bearing borrowings	**(487,508)**	(250,000)
— Debt securities issued	**(179,464)**	(278,283)
Net	**1,331,934**	1,293,881
Variable interest rate		
Financial assets		
— Cash and cash equivalent	**31,154**	23,152
— Available-for-sale financial assets	**30,220**	72,700
Net	**61,374**	95,852
Net fixed rate borrowings as a percentage of total borrowings	**100.00%**	100.00%

20 COMMITMENTS

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**770**	250
After 1 year but within 5 years	**773**	37
Total	**1,543**	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 1-5 years, at the end of which period all terms are renegotiated. None of the leases include contingent rentals.

21 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	For six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Key management personnel remuneration	**1,454**	1,613
Operating lease charges *(Notes (i))*	**258**	258
Receiving guarantees for other borrowings from third parties *(Notes (ii))*	**180,000**	—
Receiving guarantees for debt securities issued *(Notes (iii))*	**175,000**	150,000
Releasing guarantees for debt securities issued *(Notes (iii))*	**(275,000)**	—

Notes:

(i) Operating lease charges are paid to Mr. Yu Yin for the lease of an office premise.

(ii) The guarantees for other borrowings from third parties during the six months ended 30 June 2017 were provided by Mr. Yu Yin without charges. For the details of other borrowings from third parties, please refer to Note 14(iii).

(iii) The guarantees for debt securities issued during the six months ended 30 June 2017 were provided by Mr. Yu Yin without charges. For the details of the debt securities issued, please refer to Note 16.

(b) Balances with key management personnel

	At 30 June	At 31 December
	2017	2016
	RMB'000	RMB'000
Guarantees received for the borrowing from third parties under a repurchase agreement *(Notes (i))*	**150,000**	150,000
Guarantees received for other borrowings from third parties	**180,000**	—
Guarantees received for debt securities issued	**175,000**	275,000
Other payables *(Notes (ii))*	**258**	—

Notes:

(i) The guarantees received for the borrowing from third parties under a repurchase agreement at 30 June 2017 were provided by Mr. Yu Yin without charges. For the details of the borrowing from third parties under such repurchase agreement, please refer to Note 14(ii).

(i) Other payables at 30 June 2017 are operating lease charges which will be paid to Mr. Yu Yin.

21 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Other related party transactions

	For six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Operating lease charges	**55**	55
Receiving guarantees for bank loans *(Notes (i))*	**90,000**	50,000
Receiving guarantees for other borrowings from third parties *(Notes (ii))*	**180,000**	—
Receiving guarantees for debt securities issued *(Notes (iii))*	**175,000**	150,000
Releasing guarantees for bank loans *(Notes (i))*	**(30,000)**	—
Releasing guarantees for debt securities issued *(Notes (iii))*	**(275,000)**	—

Notes:

(i) *The guarantees for bank loans during the six months ended 30 June 2017 were provided by other related parties of the Group without charges. For the details of bank loans, please refer to Note 14(i).*

(ii) *The guarantees for other borrowings from third parties during the six months ended 30 June 2017 were provided by other related parties of the Group without charges. For the details of other borrowings from third parties, please refer to Note 14(iii).*

(iii) *The guarantees for debt securities issued during the six months ended 30 June 2017 were provided by other related parties of the Group without charges. For the details of the debt securities issued, please refer to Note 16.*

(d) Balances with other related parties

	At 30 June	At 31 December
	2017	2016
	RMB'000	RMB'000
Guarantees received for bank loans	**160,000**	100,000
Guarantees received for the borrowing from third parties under a repurchase agreement *(Note)*	**150,000**	150,000
Guarantees received for other borrowings from third parties	**180,000**	—
Guarantees received for debt securities issued	**175,000**	275,000
Other payables	**55**	—

Note: The guarantees received for the borrowing from third parties under a repurchase agreement at 30 June 2017 were provided by other related parties of the Group without charges. For the details of the borrowing from third parties under such repurchase agreement, please refer to Note 14(ii).

22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTED FOR THE SIX MONTHS ENDED 30 JUNE 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report.

HKFRS 9, Financial instruments

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

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.

HKFRS 16, Leases

In January 2016, the IASB issued IFRS 16 Leases, which replaces the current guidance in IAS 17. The new standard requires the companies to bring leases on-balance sheet for lessees. The new standard also makes changes in accounting over the life of the lease, and introduces a stark dividing line between leases and service contracts.

Under IFRS 16 Leases there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognising a right-of-use (ROU) asset and lease liability.

Lessor accounting is substantially unchanged — i.e. lessors continue to classify leases as finance and operating leases. However, there are a number of changes in the details of lessor accounting. For example, lessors apply the new definition of a lease, sale-and-leaseback guidance, sub-lease guidance and disclosure requirements.

The Group is currently assessing the impact of the standard on its financial position and performance.

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 report, 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 CG Code. Throughout the six months ended 30 June 2017, the Company has fully complied with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code 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 2017.

SHARE CAPITAL

As at 30 June 2017, the total issued share capital of the Company was RMB1,180,000,000, divided into 1,180,000,000 shares of RMB 1.00 each, of which 880,000,000 were Domestic Shares and 300,000,000 were H Shares.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2017, the interests or short positions of the Directors, Supervisors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporations of the Company (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Interests of the Directors in the shares of the Company

Name of Director	Class of shares	Number of shares	Nature of interest	Approximate percentage in the relevant class of shares[1]	Approximate percentage in the total issued shares[1]
Yu Yin	Domestic Shares	88,000,000 (L)	Beneficial owner[2]	10.00%	7.46%
	Domestic Shares	307,061,040 (L)	Interests held jointly with another person[2]	34.89%	26.02%
Zheng Xuegen	Domestic Shares	2,992,000 (L)	Beneficial owner	0.34%	0.25%
Hu Haifeng	Domestic Shares	10,630,400 (L)	Beneficial owner	1.21%	0.90%
Pan Zhongmin	Domestic Shares	11,792,000 (L)	Interest of a controlled Corporation[3]	1.34%	1.00%

(ii) Interests of the Supervisors in the shares of our Company

Name of Supervisor	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of shares[1]	Percentage in the total issued shares[1]
Shen Yamin	Domestic Shares	13,511,520 (L)	Beneficial owner	1.54%	1.15%

Notes:

(1) *The calculation is based on the total number of 1,180,000,000 ordinary shares of the Company in issue as at 30 June 2017, which is comprised of 880,000,000 Domestic Shares and 300,000,000 H Shares.*

(2) *On 28 April 2014, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy entered into the Acting in Concert Agreement, pursuant to which they jointly and severally undertook that they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders of the Company (and of its subsidiaries, if any in the future) based on such decisions. As such, Mr. Yu Youqiang (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu Yin, Mr. Shen Haiying (by himself and through Dingsheng Investment and Zuoli Holdings), Mr. Zhang Jianming and Puhua Energy together control approximately 33.48% of the total issued shares in the Company. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming are deemed to be interested in approximately 33.48% of the total issued shares in the Company.*

(3) *Mr. Pan Zhongmin holds 75.50% of the equity interest of Bangni Fiber, which in turn holds approximately 1.00% of the total issued shares in the Company. By virtue of the SFO, Mr. Pan Zhongmin is deemed to be interested in approximately 1.00% of the total issued shares in the Company.*

(4) *The letter "L" denotes the person's long position in such securities.*

Save as disclosed above, as at 30 June 2017, none of the Directors, Supervisors nor chief executive of the Company has registered any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2017, the persons or corporations who had or deemed or taken to have an interest or short position in the shares, underlying shares or debentures of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of shares[(1)]	Percentage in the total issued shares[(1)]
Mr. Yu Youqiang	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[(2)(3)]	44.89%	33.48%
Puhua Energy	Domestic Shares	264,000,000 (L)	Beneficial owner[(2)]	30.00%	22.37%
	Domestic Shares	131,061,040 (L)	Interests held jointly with another person[(2)]	14.89%	11.11%
Zuoli Holdings	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[(2)(4)]	44.89%	33.48%
Deqing Yintian	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[(2)(5)]	44.89%	33.48%
Mr. Yu Yin	Domestic Shares	88,000,000 (L)	Beneficial owner[(2)]	10.00%	7.46%
	Domestic Shares	307,061,040 (L)	Interests held jointly with another person[(2)]	34.89%	26.02%
Mr. Shen Haiying	Domestic Shares	23,760,000 (L)	Beneficial owner[(2)]	2.70%	2.01%
	Domestic Shares	371,301,040 (L)	Interests held jointly with another person[(2)]	42.19%	31.47%
Dingsheng Investment	Domestic Shares	395,061,040 (L)	Interests held jointly with another person[(2)]	44.89%	33.48%
Mr. Zhang Jianming	Domestic Shares	19,301,040 (L)	Beneficial owner[(2)]	2.19%	1.64%
	Domestic Shares	375,760,000 (L)	Interests held jointly with another person[(2)]	42.70%	31.84%

Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of shares(1)	Percentage in the total issued shares(1)
Zhongrong International Trust Co., Ltd.	H Shares	76,920,000 (L)	Trustee	25.64%	6.52%
Mr. Xu Zhenghui	H Shares	34,600,000 (L)	Beneficial owner	11.53%	2.93%
Ms. Qiu Xiaomei	H Shares	34,600,000 (L)	Interest of spouse(6)	11.53%	2.93%
安信乾盛財富管理(深圳)有限公司	H Shares	36,662,000 (L)	Trustee	12.22%	3.11%
上海海通證券資產管理有限公司	H Shares	36,662,000 (L)	Trustee	12.22%	3.11%
Mr. Peng Tao	H Shares	67,830,000 (L)	Beneficial owner	22.61%	5.75%

Notes:

(1) *The calculation is based on the total number of 1,180,000,000 ordinary shares of the Company in issue as at 30 June 2017, which is comprised of 880,000,000 Domestic Shares and 300,000,000 H Shares.*

(2) *On 28 April 2014, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy entered into the Acting in Concert Agreement, pursuant to which they jointly and severally undertook that they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders of the Company (and of its subsidiaries, if any in the future) based on such decisions. As such, Mr. Yu Youqiang (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu Yin, Mr. Shen Haiying (by himself and through Dingsheng Investment and Zuoli Holdings), Mr. Zhang Jianming and Puhua Energy together control approximately 33.48% of the total issued shares in the Company. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming are deemed to be interested in approximately 33.48% of the total issued shares in the Company.*

(3) *As Puhua Energy is indirectly controlled by Mr. Yu Youqiang, Mr. Yu Youqiang is deemed to be interested in all the shares held by Puhua Energy.*

(4) *Puhua Energy is wholly owned by Zuoli Holdings. By virtue of the SFO, Zuoli Holdings is deemed to be interested in all the shares held by Puhua Energy.*

(5) *Deqing Yintian is wholly owned by Mr. Yu Youqiang and holds approximately 51.93% of the equity interest in Zuoli Holdings. Zuoli Holdings is controlled by Deqing Yintian and therefore Deqing Yintian is deemed to be interested in all the shares held by Zuoli Holdings.*

(6) *Ms. Qiu Xiaomei is the spouse of Mr. Xu Zhenghui. Under the SFO, Ms. Qiu Xiaomei is deemed to be interested in the same number of shares in which Mr. Xu Zhenghui is interested.*

(7) *The letter "L" denotes the person's long position in such securities.*

Save as disclosed above, the Directors were not aware of, as at 30 June 2017, any other person or corporations who had or deemed or taken to have an interest or short position in the shares, underlying shares or debentures of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

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

For the six months ended 30 June 2017, the Group has not purchased, sold or redeemed any of the Company's listed securities.

DIVIDENDS

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2017 (2016: HK$nil).

EVENTS AFTER THE REPORTING PERIOD

On 6 July 2017, the Company and Zuoli Holdings entered into a lease whereby Zuoli Holdings has agreed to lease the 10th to 13th and 22nd floors and public area (including, without limitation, the staff canteen, activities room, exhibition room, file storage room and carpark, the use of which are to be shared with other tenants), of 佐力大廈辦公樓 (Zuoli Da Xia Ban Gong Lou*) which is situated at Deqing Avenue, Deqing, Zhejiang, PRC to the Company for a term of 3 years commencing from 7 July 2017 and ending on 6 July 2020 (the "**Lease**").

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.

The transaction under the Lease constitutes a continuing transaction. Since Zuoli Holdings is a connected person of the Company, this continuing transaction constitutes a continuing connected transaction for the Company 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.

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 Domestics Shares (the "**Pledged Shares**") held by each of them, representing approximately 7.46%, 2.01% and 1.64% of the total issued shares of the Company respectively, in favour of 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 shares of the Company as at the date of this report.

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 report, the pledge of the Pledged Shares has not been released.

For details of this transaction, please refer to the announcement of the Company dated 5 August 2016.

AUDIT COMMITTEE

The interim results have been reviewed by the audit committee of the Company.

By order of the Board of
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, 17 August 2017

* *For identification purpose only*