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 2018

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 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
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"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 share 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*), a non-wholly owned subsidiary of the Company
"Listing Rules"	The Rules Governing the Listing of Securities on the 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)"	shareholder(s) 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.*), a non-wholly owned subsidiary of the Company
"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

Mr. Dai Shengqing *(Chairman)*
Ms. Yang Zhenlan
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. Yang Sheng *(Chairman)*
Mr. Zheng Xuegen
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. 399 Deqing Avenue
Wukang Road
Deqing County
Huzhou City
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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Deqing County
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

33rd Floor, Shui On Centre
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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
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Management Discussion and Analysis

INDUSTRY OVERVIEW

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

Competition within the microfinance industry in Zhejiang remains intense. As of 30 June 2018, the number of microfinance companies in Zhejiang reached 335. The average registered capital per microfinance company amounted to RMB177 million. The average loan balance per microfinance company amounted to RMB205.5 million.

The microfinance industry in Deqing has also seen rapid growth. As of 30 June 2018, apart from the Group, there were three other microfinance companies in Deqing. The accumulated aggregate amount of loans granted by the Group and three microfinance companies for the six months ended 30 June 2018 reached RMB3,465 million, out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 78.8%. As of 30 June 2018, the balances of loans of the Group and these three microfinance companies reached RMB3,744 million, out of which the balance of loans of the Group accounted for approximately 62.8%.

BUSINESS OVERVIEW

As at 30 June 2018, 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 have been providing financing solutions and loan services to customers with flexible terms through quick and comprehensive loan assessment and approval processes.

Our customer base primarily consists of customers engaged in AFR (三農), the SMEs, micro enterprises and online retailers operating the lifestyle products, agricultural products, cultural supplies and industrial products, etc.

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

As our clients' demand for financing services remains strong, our gross loan balance increased from RMB2,144.9 million as at 31 December 2017 to RMB2,350 million as at 30 June 2018.

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

	As at 30 June 2018	As at 31 December 2017
Registered capital (RMB'000)	**1,180,000**	1,180,000
Gross outstanding loans and advances to customers (RMB'000)	**2,350,036**	2,144,943
Leverage ratio[(1)]	**1.99**	1.82

Note:

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

For the six months ended 30 June 2017 and 30 June 2018, our average interest rates for loans were 14.5% and 14.91%, respectively. Our average loan interest rate basically remained stable during the aforesaid period, which was mainly because we continue to target our service towards clients who have stronger capability for repayment in 2018, and we charged such clients in relatively competitive interest rates.

We primarily served the SMEs and micro enterprises, customers engaged in AFR (三農) in Huzhou and Hangzhou and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc.

As at 31 December 2017 and 30 June 2018, there were 96.6% and 94.8% of loan amount in our loan contracts up to RMB1 million, respectively. Among our loan contracts, the higher proportion of loans with amount up to RMB1 million was mainly due to our main targets of service, including the SMEs and micro enterprises, individuals in the agricultural, industrial and service sectors in Huzhou and Hangzhou and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc., whose loan amounts are lower.

Loan Portfolio by Security

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

	As at 30 June 2018		As at 31 December 2017	
	RMB'000	%	RMB'000	%
Unsecured loans[(1)]	**201,452**	**8.6**	269,879	12.6
Guaranteed loans	**2,073,286**	**88.2**	1,813,468	84.5
Collateralized loans	**59,898**	**2.5**	61,546	2.9
Pledged loans	**15,400**	**0.7**	50	0.0
Total gross outstanding loans and advances to customers	**2,350,036**	**100.0**	2,144,943	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.

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 at the dates indicated:

Item	As at 30 June 2018 RMB'000	%	As at 31 December 2017 RMB'000	%
Normal	2,264,789	96.4	2,084,888	97.2
Special mention	24,066	1.0	27,124	1.3
Substandard	27,975	1.2	3,273	0.2
Doubtful	6,055	0.3	15,763	0.7
Loss	27,151	1.1	13,895	0.6
Total gross outstanding loans and advances to customers	2,350,036	100.0	2,144,943	100.0

For "normal" and "special mention" loans, given that they are not impaired, we make collective assessment based primarily on factors including industry conditions of the prevailing general market 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 at the dates indicated:

	As at 30 June 2018	As at 31 December 2017
Impaired loan ratio[(1)]	2.6%	1.5%
Balance of impaired loans (RMB'000)	61,181	32,931
Gross outstanding loans and advances to customers (RMB'000)	2,350,036	2,144,943
Provision coverage ratio[(2)]	179.9%	275%
Allowances for impairment losses[(3)] (RMB'000)	110,057	90,553
Balance of impaired loans (RMB'000)	61,181	32,931
Provision for impairment losses ratio[(4)]	4.7%	4.2%
Balance of overdue loans (RMB'000)	52,952	34,533
Gross outstanding loans and advances to customers (RMB'000)	2,350,036	2,144,943
Overdue loan ratio[(5)]	2.25%	1.61%

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 balance of impaired loans increased from RMB32.9 million as of 31 December 2017 to RMB61.2 million as of 30 June 2018, which was mainly due to the increase of our loan balance as at 30 June 2018.

Total overdue loans

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Unsecured loans	**16,811**	21,470
Guaranteed loans	**23,991**	11,379
Collateralized loans	**12,150**	1,684
Total overdue loans	**52,952**	34,533

We had overdue loans of RMB34.5 million and RMB53.0 million as at 31 December 2017 and 30 June 2018, respectively, accounting for 1.61% and 2.25% of our gross loan balance as of the same dates. As at 21 August 2018, RMB2.7 million out of the overdue loans as of 30 June 2018 was recovered.

FINANCIAL OVERVIEW

Net interest income

We generate interest income from loans we provide to customers and from our cash at banks. Our net interest income is net of interest and commission expenses. We incur interest and commission expenses on 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	
	2018	2017
	RMB'000	RMB'000
Interest income from		
Loans and advances to customers	**174,016**	144,273
Bank deposits	**132**	411
Total interest income	**174,148**	144,684
Interest and commission expenses from		
Borrowings from banks	**(4,618)**	(4,694)
Borrowings from non-bank institutions	**(18,294)**	(17,411)
Bank charges	**(444)**	(55)
Total interest and commission expenses	**(23,356)**	(22,160)
Net interest income	**150,792**	122,524

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 six months ended 30 June 2018, 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 at 30 June 2017 and 30 June 2018, our loan balance was RMB2,067.7 million and RMB2,350 million, respectively, and for the six months ended 30 June 2017 and 30 June 2018, our average interest rates for loans were 14.50% and 14.91%, respectively. Our average loan interest rate basically remained stable during the aforesaid period mainly because we continued to serve customers with stronger repayment ability in 2018 to whom we charged relatively more competitive interest rates.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions as well as bank charges, were RMB22.2 million and RMB23.4 million for the six months ended 30 June 2017 and 30 June 2018, respectively. We incurred interest expenses primarily on the interest payment on bank borrowings and non-bank institutions borrowings, including debt securities issued, borrowing from third parties under a repurchase agreement and borrowings from other third parties, which were principally applied to expand our loan business.

Our balance of bank borrowings amounted to RMB160 million and RMB180 million as at 30 June 2017 and 30 June 2018, respectively. Our balance of borrowings from non-bank institutions amounted to RMB507.0 million and RMB424.6 million as at 30 June 2017 and 30 June 2018, respectively.

Our net interest income for the six months ended 30 June 2017 and 30 June 2018 were RMB122.5 million and RMB150.8 million, respectively.

Other net income

Our other net income for the six months ended 30 June 2017 and 30 June 2018 were RMB3.7 million and RMB12.1 million, respectively. Our other net income increased in the aforesaid period mainly due to the receipt of government grants of RMB11.6 million in the current period.

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 2017 and 30 June 2018, our impairment losses were RMB1.3 million and RMB15.0 million, respectively.

Administrative expenses

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

	For six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Tax and surcharge	**1,537**	1,037
Staff costs	**11,192**	8,669
Office expenditures and travel expenses	**4,549**	2,309
Operating lease charges	**1,072**	605
Depreciation and amortization expenses	**3,701**	1,062
Consulting and professional service fees	**7,195**	5,220
Business development expenses	**1,424**	726
Advertising expenses	**2,554**	2,983
Others	**3,191**	906
Total administrative expenses	**36,415**	23,517

Our staff costs accounted for approximately 36.9% and 30.7% of the total administrative expenses for the six months ended 30 June 2017 and 30 June 2018, respectively. Our staff costs increased from RMB8.7 million for the six months ended 30 June 2017 to RMB11.2 million for the six months ended 30 June 2018, which was mainly attributable to additional employees we hired, due to the expansion of our loan business.

Income tax

Our income taxes for the six months ended 30 June 2017 and 30 June 2018 were RMB26.6 million and RMB28.2 million, respectively, and our effective tax rates were 26.2% and 25.3%, respectively.

Profit for the period

We had profit for the period of RMB74.8 million and RMB83.2 million for the six months ended 30 June 2017 and 30 June 2018, 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. Our working capital and capital requirements are primarily related to extending loans and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity level that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than the bank borrowings we obtain from commercial banks, we may also consider conducting financing on the platform of 浙江股權交易中心 (Zhejiang Equity Exchange Centre*) and financing, transfer and repurchase financing of certain loans on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*) or other investments plans or choices. Nevertheless, as at the date of this report, we do not have any firm intention or formulated any specific plan on material external debt financing in the short term.

As at 30 June 2018, our balance of interest-bearing borrowings was approximately RMB604.6 million (31 December 2017: RMB532.5 million). At the end of the two periods, the balance of borrowings were due within one year and bore 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 borrowings and debt securities issued as cash generated from financing activities, while we utilize such cash for granting new loans to customers and classify it as cash used in operating activities and, as a result, we typically account it as net cash used in operating activities. Due to the loan granting nature of our business and the accounting treatment that such deployment of cash is accounted for as operating cash outflow, we typically experience net cash outflows from operating activities when we expand our loan business as a result of such accounting treatment, which is generally in line with the industry norm.

Net cash used in operating activities for the six months ended 30 June 2018 was RMB80.3 million. Our net cash used in operating activities reflect: (i) our profit before tax of RMB111.4 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB15.0 million, depreciation and amortization of RMB3.7 million, interest expenses of RMB22.9 million, investment income of RMB0.4 million; (ii) the effect of changes in working capital, primarily including an increase in total loans and advances to customers of RMB205.1 million, an increase in interest receivables and other assets of RMB5.0 million, and a decrease in accruals and other payables of RMB9.8 million; and (iii) income tax paid of RMB13.0 million.

Net cash generated from investing activities

For the six months ended 30 June 2018, our net cash generated from investing activities was RMB14.1 million. Our net cash generated from investing activities mainly consisted of: (i) redemption of wealth management products after deducting net inflow upon purchase of RMB27.6 million, (ii) income of RMB0.4 million received from the wealth management products; which was partially offset by payment for the purchase of equipment and repairment of RMB13.9 million.

Net cash generated from financing activities

For the six months ended 30 June 2018, our net cash generated from financing activities was RMB49.1 million. Our net cash generated from financing activities mainly consisted of the receipt of RMB396.7 million from financing from interest-bearing borrowings, which was partly offset by: (i) repayment of financing from interest-bearing borrowings amounting to RMB330 million; and (ii) payment of interest on borrowings of RMB17.6 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 borrowings from banks and other non-bank institutions, and use the remainder for granting loans to our customers. As at 31 December 2017 and 30 June 2018, total cash and cash equivalents amounted to RMB37.2 million and RMB20.2 million, respectively.

Cash and cash equivalents

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Cash in hand	2	1
Cash at banks	18,582	27,223
Other currencies cash	1,573	10,011
Cash and cash equivalents	20,157	37,235

Interest receivables

Our interest receivables as at 31 December 2017 and 30 June 2018 were RMB20.4 million and RMB21.5 million, respectively. Our outstanding interest receivables basically remained stable.

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 at the dates indicated:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Corporate loans	562,414	532,020
Retail loans	1,548,508	1,289,175
Micro-loans granted online	239,114	323,748
Gross loans and advances to customers	2,350,036	2,144,943
Total allowances for impairment losses	(110,057)	(90,553)
Net loans and advances to customers	2,239,979	2,054,390

As at 30 June 2018, our gross loans and advances to customers increased to RMB2,350 million, which was mainly resulting from our increased 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 balance of overdue loans of RMB34.5 million and RMB53.0 million as at 31 December 2017 and 30 June 2018, respectively, accounting for approximately 1.61% and 2.25% of our gross loans and advances to customers as at the same dates.

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Unsecured loans[1]	201,452	269,879
Guaranteed loans	2,073,286	1,813,468
Collateralized loans	59,898	61,546
Pledged loans	15,400	50
Gross loans and advances to customers	2,350,036	2,144,943

Note:

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

The majority of our loans were guaranteed loans, which accounted for approximately 84.5% and 88.2% of our gross loans and advances to customers as at 31 December 2017 and 30 June 2018, respectively.

Other Assets

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Prepayment	4,614	1,642
Others	2,637	1,756
Total other assets	7,251	3,398

Our other assets as at 30 June 2018 increased to RMB7.3 million, which was mainly attributable to the increase of our prepayments.

Accruals and other payables

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Staff costs payable	1,421	3,890
Interest payable	4,553	5,116
Value-added tax payable	2,574	1,638
Acquisition consideration payable	506	506
Tax and surcharges and other taxation payable	531	242
Other payables	23,224	27,206
Total accruals and other payables	32,809	38,598

Current taxation

Our current taxation, which represent our income tax payable, were RMB26.3 million and RMB44.2 million, as at 31 December 2017 and 30 June 2018, respectively.

Operating lease commitments

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	2,800	3,356
After 1 year but within 5 years	2,800	4,715
Total	5,600	8,071

The Group is the lessee in respect of certain properties held under an operating lease. The lease typically runs for an initial period of 3 years, at the end of which period all terms are renegotiated. The lease does not include contingent rentals.

Capital commitments

The following tables set out our authorized capital commitments as at the dates indicated:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Contracted but not paid for		
— Leasehold improvement	4,147	16,407

Key Financial Indicators

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

	For the six months ended 30 June 2018	For the year ended 31 December 2017
Return on weighted average equity (%)	10.3[2]	10.3
Average return on assets (%)[1]	7.2[2]	7.3

Notes:

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

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

Gearing Ratio

	As of 30 June 2018	As of 31 December 2017
Gearing ratio (%)[1]	36.6	32.6

Note:

(1) Represents the interest-bearing borrowings less cash and cash equivalents, divided by total equity attributable to equity Shareholders as at the end of the periods.

Our gearing ratio increased from 32.6% as of 31 December 2017 to 36.6% as of 30 June 2018, mainly due to the increase in interest-bearing borrowings of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*) in the current period of RMB161.5 million.

Related party transactions

For the six months ended 30 June 2018, Mr. Yu Yin, an executive Director and the chairman of the Board, and other related parties had guaranteed some of our interest-bearing borrowings. As at 30 June 2018, the amount of guarantee provided by Mr. Yu Yin amounted to RMB354.8 million and the amount of guarantee provided by other related parties amounted to RMB604.8 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the captioned provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

For the six months ended 30 June 2018, the Company leased a property from Zuoli Holdings with a rental fee of RMB1.0 million. These related party transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Puhua Energy is a controlling Shareholder (the "**Controlling Shareholder**") and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transaction constituted the continuing connected transactions under Chapter 14A of the Listing Rules.

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

The independent non-executive Directors have reviewed all the above continuing connected transactions and confirmed that these transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and in accordance with the relevant agreements governing them on terms which are fair and reasonable and in the interests of the Shareholders as a whole.

Save as disclosed above, during six months ended 30 June 2018, there was no other connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Indebtedness

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Interest-bearing borrowings	**604,649**	532,500
Total	**604,649**	532,500

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

Off-balance sheet arrangements

As at 30 June 2018, we did not have any off-balance sheet arrangements (30 June 2017: nil).

EMPLOYMENT AND EMOLUMENTS

As at 30 June 2018, the Group had approximately 136 employees (30 June 2017: 133). Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance, etc.

SIGNIFICANT INVESTMENT

Save and except for the wealth management products issued by banks in the PRC, the Group had no significant investments held during the six months ended 30 June 2018.

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 2018.

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2018, the Group did not have any charges on its assets (31 December 2017: nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

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

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 2018 were denominated in the respective Group companies' functional currencies.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any significant contingent liabilities (31 December 2017: 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 role played by micro-finance companies in the PRC is being increasingly recognized by the relevant authorities and the micro-finance industry is expected to benefit as a whole from the regulatory aspect.

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

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 enable the Company to diversify our revenue stream, open up channel for the provision of lending services to online retailers, and break through the geographical limitation for our business.

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 60 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 2018 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 month 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 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

21 August 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2018—unaudited
(Expressed in Renminbi ("RMB")'000, unless otherwise stated)

		Six months ended 30 June	
	Note	2018 RMB'000	2017 (Note) RMB'000
Interest income		174,148	144,684
Interest and commission expenses		(23,356)	(22,160)
Net interest income	3	150,792	122,524
Other net income	4	12,060	3,689
Charge of impairment losses		(15,032)	(1,294)
Administrative expenses		(36,415)	(23,517)
Profit before taxation	5	111,405	101,402
Income tax	6	(28,159)	(26,570)
Profit and total comprehensive income for the period		83,246	74,832
Attributable to:			
Equity shareholders of the Company		80,165	71,241
Non-controlling interests		3,081	3,591
Profit for the period		83,246	74,832
Earnings per share			
Basic and diluted (RMB)	7	0.07	0.06

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

The notes on pages 28 to 60 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2018 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 (Note) RMB'000
Assets			
Cash and cash equivalents	8	20,157	37,235
Interest receivables		21,517	20,391
Loans and advances to customers	9	2,239,979	2,054,390
Fixed assets	12	44,356	29,580
Intangible assets	10	3,529	3,964
Goodwill		22,502	22,502
Deferred tax assets	13	22,136	18,282
Available-for-sale financial assets	14	—	27,520
Other assets	15	7,251	3,398
Total assets		2,381,427	2,217,262
Liabilities			
Interest-bearing borrowings	16	604,649	532,500
Accruals and other payables	17	32,809	38,598
Current taxation		44,206	26,295
Total liabilities		681,664	597,393
NET ASSETS		1,699,763	1,619,869

The notes on pages 28 to 60 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2018 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 (Note) RMB'000
CAPITAL AND RESERVES	18		
Share capital		1,180,000	1,180,000
Reserves		416,078	337,952
Total equity attributable to equity shareholders of the Company		1,596,078	1,517,952
Non-controlling interests		103,685	101,917
TOTAL EQUITY		1,699,763	1,619,869

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

Approved and authorised for issue by the board of directors on 21 August 2018.

Yu Yin
Chairman of the Board

Hu Fangfang
Chief Financial Controller

Company chop

The notes on pages 28 to 60 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2018 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000 Note 18(b)	Surplus reserve RMB'000 Note 18(c)(ii)	General reserve RMB'000 Note 18(c)(iii)	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 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
Balance at 30 June 2017 and 1 July 2017	1,180,000	25,122	35,781	199,462	1,440,365	98,484	1,538,849
Changes in equity for the six months ended 31 December 2017:							
Profit and total comprehensive income for the period	—	—	—	77,587	77,587	3,433	81,020
Appropriation to surplus reserve	—	14,458	—	(14,458)	—	—	—
Appropriation to general reserve	—	—	8,745	(8,745)	—	—	—
Balance at 31 December 2017 (Note)	1,180,000	39,580	44,526	253,846	1,517,952	101,917	1,619,869

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

The notes on pages 28 to 60 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2018 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 Note 18(b)	Capital reserve RMB'000 Note 18(c)(i)	Surplus reserve RMB'000 Note 18(c)(ii)	General reserve RMB'000 Note 18(c)(iii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017	1,180,000	–	39,580	44,526	253,846	1,517,952	101,917	1,619,869
Impact on initial application of HKFRS 9 (Note 2)	–	–	–	–	(3,019)	(3,019)	(333)	(3,352)
Adjusted balance at 1 January 2018	1,180,000	–	39,580	44,526	250,827	1,514,933	101,584	1,616,517
Changes in equity for the six months ended 30 June 2018:								
Capital injection in subsidiary (Note 11)	–	980	–	–	–	980	(980)	–
Profit and total comprehensive income for the year	–	–	–	–	80,165	80,165	3,081	83,246
Balance at 30 June 2018	1,180,000	980	39,580	44,526	330,992	1,596,078	103,685	1,699,763

The notes on pages 28 to 60 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2018 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Note	Six months ended 30 June 2018 RMB'000	2017 (Note) RMB'000
Operating activities			
Cash used in operations		(67,275)	(20,755)
PRC income tax paid		(12,984)	(22,472)
Net cash used in operating activities		(80,259)	(43,227)
Investing activities			
Proceeds from disposal of investments		1,230,959	3,337,359
Proceeds from disposal of fixed assets		—	3
Payment for the purchase of fixed assets and intangible assets		(13,896)	(3,925)
Payments on acquisition of subsidiary		—	(9,460)
Payments on acquisition of investments		(1,203,010)	(3,292,917)
Other cash flows arising from investing activities		—	(5,917)
Net cash generated from investing activities		14,053	25,143
Financing activities			
Proceeds from new bank loans		90,000	90,000
Proceeds from debt securities issued		—	175,000
Proceeds from third parties		306,742	180,000
Repayment of bank loans		(90,000)	(30,000)
Repayment of debt securities issued		—	(275,000)
Repayment of third parties		(240,000)	—
Interest paid		(17,612)	(22,537)
Dividends paid to non-controlling interests		—	(558)
Net cash generated from financing activities		49,130	116,905
Net (decrease)/increase in cash and cash equivalents		(17,076)	98,821
Cash and cash equivalents at 1 January	8	37,235	29,208
Effect of foreign exchange rates changes		(2)	(2)
Cash and cash equivalents at 30 June	8	20,157	128,027

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

The notes on pages 28 to 60 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 21 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 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 consolidated 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 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a 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

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following development are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and not materially impacted by HKFRS 15. Details of the changes in accounting policies are discussed in Note 2(b) for HKFRS 9 and Note 2(c) for HKFRS 15.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Overview (Continued)

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9:

	At 31 December 2017	Impact on initial application of HKFRS 9 (Note 2(b))	At 1 January 2018
	RMB'000	RMB'000	RMB'000
Loans and advances to customers	2,054,390	(4,470)	2,049,920
Deferred tax assets	18,282	1,118	19,400
Total assets	2,217,262	(3,352)	2,213,910
Net Assets	1,619,869	(3,352)	1,616,517
Reserves	337,952	(3,019)	334,933
Total equity attributable to equity shareholders of the Company	1,517,952	(3,019)	1,514,933
Non-controlling interests	101,917	(333)	101,584
Total Equity	1,619,869	(3,352)	1,616,517

Further details of these changes are set out in sub-sections (b) of this note.

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* (Continued)

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings	
Recognition of additional expected credit losses on loans and advances to customers	4,025
Related tax	(1,006)
Net decrease in retained earnings at 1 January 2018	3,019
Non-controlling interests	
Recognition of additional expected credit losses on loans and advances to customers and decrease in non-controlling interests at 1 January 2018	333

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

— FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

— FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount at 1 January 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets carried at amortised cost				
Loans and advances to customers	2,054,390	–	(4,470)	2,049,920
	2,054,390	–	(4,470)	2,049,920
Financial assets carried at FVPL				
Wealth management products (Note)	–	27,520	–	27,520
Financial assets classified as available-for-sale financial assets under HKAS 39	27,520	(27,520)	–	–

Note: Under HKAS 39, Wealth management products were classified as available-for-sale financial assets. They are classified as at FVPL under HKFRS 9.

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* (Continued)

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, loans and advances to customers and other receivables).

Financial assets measured at fair value, including wealth management products, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down. The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For financial assets measured at amortized cost (including cash and cash equivalent, loans and advances to customers and other receivables), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* (Continued)

(ii) Credit losses (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* (Continued)

(ii) Credit losses (Continued)

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

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

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

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

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB4.5 million, which decreased retained earnings by RMB3.0 million and non-controlling interests by RMB0.3 million and increased deferred tax assets by RMB1.1 million at 1 January 2018

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* (Continued)

(ii) Credit losses (Continued)

Opening balance adjustment (Continued)

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under HKAS 39	90,553
Additional credit loss recognised at 1 January 2018 on loans and advances to customers	4,470
Loss allowance at 1 January 2018 under HKFRS 9	95,023

(iii) Hedge accounting

The Group currently does not have any hedge business and therefore the adoption of HKFRS 9 has not had a significant impact on the Group's financial statements in this regard.

(iv) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

— The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  — the determination of the business model within which a financial asset is held;

  — the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECLs has been recognised for that financial instrument.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles and there is no transition impact to retained earnings.

(d) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The Group currently does not have any foreign business and therefor the adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

3 NET INTEREST INCOME

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

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Interest income arising from		
Loans and advances to customers	174,016	144,273
Cash at banks	132	411
	174,148	144,684
Interest and commission expenses arising from		
Borrowings from banks	(4,618)	(4,694)
Borrowings from non-bank institutions	(18,294)	(17,411)
Bank charges	(444)	(55)
	(23,356)	(22,160)
Net interest income	150,792	122,524

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. Details of concentration of credit risk are set out in Note 20(a).

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	
	2018 RMB'000	2017 RMB'000
Government grants	11,633	660
Investment income from wealth managements products	429	1,962
Exchange losses	(2)	(2)
Gains on disposal of loans and advances to customers	–	1,084
Losses on disposal of fixed assets	–	(15)
Total	12,060	3,689

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Salaries, bonuses and allowance	7,956	5,892
Social insurance and other benefits	2,299	2,361
Contribution to retirement scheme	937	416
Total	11,192	8,669

The Group is required to participate in the pension scheme organised by the municipal government of 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.

5 PROFIT BEFORE TAXATION (Continued)

(b) Other items

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Depreciation expenses (Note 12)	3,266	942
Operating lease charges in respect of building	1,072	605
Auditors' remuneration	899	891
Amortization of intangible assets	435	120

6 INCOME TAX

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Current tax		
Provision for PRC income tax for the period	30,895	29,377
Under-provision in respect of prior years	–	983
Deferred tax (Note 13)		
Origination and reversal of temporary differences	(2,736)	(3,790)
Total	28,159	26,570

Notes:

(i) The Company and the subsidiaries of the Group incorporated in the PRC are subject to the PRC income tax at the statutory tax rate of 25% for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 2018 and 30 June 2017.

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 RMB 80.2 million (six months ended 30 June 2017: RMB71.2 million) and the weighted average of 1,180,000,000 ordinary shares (six months ended 30 June 2017: 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 2018 and 30 June 2017, and therefore, diluted earnings per share are the same as the basic earnings per share.

8 CASH AND CASH EQUIVALENTS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Cash in hand	2	1
Cash at banks	18,582	27,223
Others	1,573	10,011
Cash and cash equivalents in the cash flow statement	20,157	37,235

9 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Corporate loans	562,414	532,020
Retail loans	1,548,508	1,289,175
Micro-loans granted online	239,114	323,748
Gross loans and advances to customers	2,350,036	2,144,943
Less: Allowances for impairment losses	(110,057)	(90,553)
Net loans and advances to customers	2,239,979	2,054,390

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Analysed by type of collateral

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Unsecured loans	201,452	269,879
Guaranteed loans	2,073,286	1,813,468
Collateralized loans	59,898	61,546
Pledged loans	15,400	50
Gross loans and advances to customers	2,350,036	2,144,943
Less: Allowances for impairment losses	(110,057)	(90,553)
Net loans and advances to customers	2,239,979	2,054,390

(c) Analysed by industry sector

	At 30 June 2018 RMB'000	%	At 31 December 2017 RMB'000	%
Wholesale and retail	171,160	7%	115,192	5%
Agriculture, forestry, animal husbandry and fishery	100,900	5%	45,900	2%
Manufacturing	54,200	2%	33,363	2%
Construction	28,100	1%	42,100	2%
Others	208,054	9%	295,465	14%
Corporate loans	562,414	24%	532,020	25%
Retail loans	1,548,508	66%	1,289,175	60%
Micro-loans granted online	239,114	10%	323,748	15%
Gross loans and advances to customers	2,350,036	100%	2,144,943	100%
Less: Allowances for impairment losses	(110,057)		(90,553)	
Net loans and advances to customers	2,239,979		2,054,390	

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	At 30 June 2018				
	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	4,067	2,437	1,860	8,447	16,811
Guaranteed loans	2,852	848	4,484	15,807	23,991
Collateralized loans	10,500	—	—	1,650	12,150
Total	17,419	3,285	6,344	25,904	52,952

	At 31 December 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	2,745	2,827	6,472	9,426	21,470
Guaranteed loans	1,619	635	4,335	4,790	11,379
Collateralized loans	—	—	1,655	29	1,684
Total	4,364	3,462	12,462	14,245	34,533

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 2018			
	12-month ECLs RMB'000	Lifetime ECLs non credit-impaired RMB'000	Lifetime ECLs credit-impaired RMB'000	Total RMB'000
Gross loans and advances to customers	2,264,789	24,066	61,181	2,350,036
Less: Allowances for impairment losses	(69,026)	(2,888)	(38,143)	(110,057)
Net loans and advances to customers	2,195,763	21,178	23,038	2,239,979

	At 31 December 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	2,112,012	32,931	2,144,943
Less: Allowances for impairment losses	(64,935)	(25,618)	(90,553)
Net loans and advances to customers	2,047,077	7,313	2,054,390

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Movements of allowances for impairment losses

	At 30 June 2018			
	12-month ECLs RMB'000	Lifetime ECLs non credit-impaired RMB'000	Lifetime ECLs credit-impaired RMB'000	Total RMB'000
At 1 January 2018	60,897	4,495	29,631	95,023
Transferred to				
— Lifetime ECLs non credit-impaired	(686)	686	—	—
— Lifetime ECLs credit-impaired	(368)	(1,888)	2,256	—
Charge/(Reversal) for the period	9,183	(405)	6,254	15,032
Recoveries of loans and advances written off in previous years	—	—	2	2
At 30 June 2018	69,026	2,888	38,143	110,057

	Year ended 31 December 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 year	25,657	20,394	46,051
Reversal for the year	(25,606)	(3,574)	(29,180)
Write off	—	(8,993)	(8,993)
Recoveries of loans and advances written off in previous years	—	319	319
At 31 December	64,935	25,618	90,553

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality

	At 30 June 2018 RMB'000
Gross balance of loans and advances to customers that are assessed for 12-month ECLs	
— Neither overdue nor credit-impaired	2,264,789
Sub-total	2,264,789
Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired	
— Overdue but not credit-impaired	6,839
— Neither overdue nor credit-impaired	17,227
Sub-total	24,066
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired	
— Overdue and credit-impaired	46,113
— Credit-impaired but not overdue	15,068
Sub-total	61,181
Less: Allowances for impairment losses	(110,057)
Net value	2,239,979

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality (Continued)

	At 31 December 2017 RMB'000
Gross balance of loans and advances to customers	
— Neither overdue nor impaired	2,108,043
— Overdue but not impaired	3,969
— Impaired	32,931
	2,144,943
Less: Allowances for impairment losses	
— Neither overdue nor impaired	(64,428)
— Overdue but not impaired	(507)
— Impaired	(25,618)
	(90,553)
Net balance	
— Neither overdue nor impaired	2,043,615
— Overdue but not impaired	3,462
— Impaired	7,313
	2,054,390

10 INTANGIBLE ASSETS

	30 June 2018 RMB'000	31 December 2017 RMB'000
Computer software	3,529	3,964

(Expressed in RMB'000, unless otherwise stated)

11 INVESTMENTS IN SUBSIDIARIES

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

Name of Companies	Place of incorporation and business	Paid up capital	Proportion of ownership interest at 30 June 2018 Group's effective interest	Held by the Company	Principal activities
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance") (Note)	Deqing, Zhejiang	1,228,000,000	99.4300%	99.4300%	Micro-finance
Zuoli Micro-finance Hong Kong International Investment Company Limited (佐力小貸香港國際投資有限公司) ("Zuoli HK")	Hong Kong	–	100%	100%	Investment, Trading
Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd. (杭州市高新區(濱江)興耀普匯小額貸款有限公司) ("Xingyao Micro-finance")	Hangzhou, Zhejiang	200,000,000	60%	60%	Micro-finance

Name of Companies	Place of incorporation and business	Paid up capital	Proportion of ownership interest at 31 December 2017 Group's effective interest	Held by the Company	Principal activities
Jinhui Micro-finance (Note)	Deqing, Zhejiang	228,000,000	96.9298%	96.9298%	Micro-finance
Zuoli HK	Hong Kong	–	100%	100%	Investment, Trading
Xingyao Micro-finance	Hangzhou, Zhejiang	200,000,000	60%	60%	Micro-finance

Note: Pursuant to the assets restructuring agreement and the capital injection agreement entered into by the Company and Jinhui Micro-finance dated 14 November 2017, the Company has injected capital of RMB1,000,000,000 in the form of transferring assets and liabilities into Jinhui Micro-finance on 25 February 2018 after obtaining approvals from relevant authorities in the PRC. Upon the completion of the aforementioned capital injection, the Company held equity interest in Jinhui Micro-finance increased from approximately 96.93% to 99.43%. The difference between the capital injection and the carrying amount of the 2.5% equity interest in Jinhui Micro-finance amounted to RMB980 thousand was recorded as Reserves-Capital reserve on the consolidated statement of financial position.

12 FIXED ASSETS

	Construction in progress RMB'000	Premise RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost:							
At 1 January 2017	–	13,366	1,183	3,059	1,495	6,188	25,291
Additions	10,075	1,741	85	410	274	–	12,585
Disposal	–	–	(94)	–	(39)	–	(133)
At 31 December 2017 and 1 January 2018	10,075	15,107	1,174	3,469	1,730	6,188	37,743
Additions	3,007	–	769	1,408	49	12,809	18,042
Transfers in/(out) of construction in progress	(13,082)	–	–	–	–	13,082	–
At 30 June 2018	–	15,107	1,943	4,877	1,779	32,079	55,785
Accumulated depreciation:							
At 1 January 2017	–	–	(874)	(1,458)	(629)	(3,347)	(6,308)
Charge for the year	–	(232)	(121)	(445)	(276)	(896)	(1,970)
Disposal	–	–	76	–	39	–	115
At 31 December 2017 and 1 January 2018	–	(232)	(919)	(1,903)	(866)	(4,243)	(8,163)
Charge for the year	–	(199)	(95)	(358)	(176)	(2,438)	(3,266)
At 30 June 2018	–	(431)	(1,014)	(2,261)	(1,042)	(6,681)	(11,429)
Net book value:							
At 30 June 2018	–	14,676	929	2,616	737	25,398	44,356
At 31 December 2017	10,075	14,875	255	1,566	864	1,945	29,580

13 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:

	Provision for impairment losses RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2017	16,473	508	16,981
Charged to profit or loss	803	498	1,301
At 31 December 2017	17,276	1,006	18,282
Impact on initial application of HKFRS 9	1,118	—	1,118
At 1 January 2018	18,394	1,006	19,400
Charged to profit or loss (Note 6)	3,245	(509)	2,736
At 30 June 2018	21,639	497	22,136

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Wealth management products (Note)		
— Available-for-sale financial assets	—	27,520

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

15 OTHER ASSETS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Prepayment	4,614	1,642
Others	2,637	1,756
	7,251	3,398

16 INTEREST-BEARING BORROWINGS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Bank loans (Note (i))		
— Guaranteed by related parties	180,000	180,000
Borrowings from third parties (Note (ii))		
— Guaranteed by related parties	424,649	352,500
	604,649	532,500

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 2018 and 31 December 2017, none of the covenants relating to the bank loans had been breached.

(ii) In April 2018, the Group obtained financing with nominal amount totaling RMB50.0 million at an interest rate of 12% per annum from a third party micro-finance company located in the PRC which will be due on 25 July 2018. As at 30 June 2018, the remaining outstanding balance from this micro-finance company was RMB25.0 million. The above transactions were guaranteed by certain shareholders and related parties.

In February, May and June 2018, the Group obtained financings with nominal amount totaling RMB259.8 million at an interest rate ranging from 5.4% to 7.8% per annum by issuing financing products on a trading platform located in the PRC which will be due respectively during the period from August 2018 to June 2019. As at 30 June 2018, the remaining outstanding balance of these financial products was RMB249.8 million. The above transactions were guaranteed by certain shareholders and related parties.

17 ACCRUALS AND OTHER PAYABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Interest payable	4,553	5,116
Value-added tax payable	2,574	1,638
Accrued staff cost	1,421	3,890
Tax and surcharges and other taxation payable	531	242
Acquisition consideration payable	506	506
Other payables	23,224	27,206
	32,809	38,598

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Group didn't pay any dividend during the period from 1 January 2018 to 30 June 2018, which were attributable to the previous year (during the period from 1 January 2017 to 30 June 2017:nil).

(b) Share capital

As at 30 June 2018, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1.0 each.

(c) Nature and purpose of reserves

(i) Capital reserve

The capital reserve represents the increase of equity interest in Jinhui Micro-finance arising from the capital injection. For details, please see Note 11.

(ii) Surplus reserve

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

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

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

(iii) General 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.

19 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 31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Wealth management products	—	27,520	—	27,520

At 30 June 2018, no financial instruments were measured by fair value.

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

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

(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 2018 and 31 December 2017.

20 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 loans and advances to customers portfolio risk. Loans and advances to customers 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 to customers. 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 loans and advances to customers portfolio is assessed collectively or individually as appropriate.

After adopting HKFR 9 at 1 January 2018, loans and advances to customers are also categorised into the following stages by the Group:

Stage 1
Loans and advances to customers have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses (12-month ECLs).

Stage 2
Loans and advances to customers have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses (Lifetime ECLs non credit-impaired).

Stage 3
Loans and advances to customers that are in default and considered credit impaired (Lifetime ECLs credit-impaired).

The Group applies the new ECL model to measure the impairment loss of the loans and advances to customers.

20 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit risk arising from micro-finance business (Continued)

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 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 2018, 1.28% (31 December 2017: 1.40%) and 5.32% (31 December 2017: 5.83%) 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 of loans and advances to customers for each stage is represented by the net carrying amount of each type of financial assets as at the end of the reporting periods. For details, please see Note 9.

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.

20 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 2018					
	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	20,157	–	–	–	20,157	20,157
Interest receivables	2,754	11,481	7,282	–	21,517	21,517
Loans and advances to customers	52,952	489,452	1,873,339	9,020	2,424,763	2,239,979
Other assets	2,637	–	–	–	2,637	2,637
Total	78,500	500,933	1,880,621	9,020	2,469,074	2,284,290
Liabilities						
Interest-bearing borrowings	–	(270,465)	(353,046)	–	(623,511)	(604,649)
Accruals and other payables	(7,874)	(15,522)	(4,887)	–	(28,283)	(28,283)
Total	(7,874)	(285,987)	(357,933)	–	(651,794)	(632,932)
	70,626	214,946	1,522,688	9,020	1,817,280	1,651,358

20 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

	At 31 December 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	37,235	—	—	—	37,235	37,235
Interest receivables	396	14,147	5,848	—	20,391	20,391
Loans and advances to customers	34,533	774,842	1,637,785	18,163	2,465,323	2,054,390
Available-for-sale financial assets	27,520	—	—	—	27,520	27,520
Other assets	270	1,486	—	—	1,756	1,756
Total	99,954	790,475	1,643,633	18,163	2,552,225	2,141,292
Liabilities						
Interest-bearing borrowings	—	(27,662)	(523,290)	—	(550,952)	(532,500)
Accruals and other payables	(6,330)	(24,203)	(2,295)	—	(32,828)	(32,828)
Total	(6,330)	(51,865)	(525,585)	—	(583,780)	(565,328)
	93,624	738,610	1,118,048	18,163	1,968,445	1,575,964

20 FINANCIAL RISK MANAGEMENT (Continued)

(c) Interest risk

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

(i) Interest rate profile

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Fixed interest rate		
Financial assets		
— Loans and advances to customers	2,239,979	2,054,390
Financial liabilities		
— Interest-bearing borrowings	(604,649)	(532,500)
Net	1,635,330	1,521,890
Variable interest rate		
Financial assets		
— Cash and cash equivalent	18,582	27,223
— Available-for-sale financial assets	—	27,520
Net	18,582	54,743
Net fixed rate borrowings as a percentage of total borrowings	100.00%	100.00%

(ii) Sensitivity analysis

At 30 June 2018 and 31 December 2017, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Group's net profit during the next 12 months by approximately RMB70,000 and RMB205,000 respectively.

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

21 COMMITMENTS

(a) Operating lease commitments

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	2,800	3,356
After 1 year but within 5 years	2,800	4,715
Total	5,600	8,071

The Group is the lessee in respect of certain properties held under an operating lease. The lease typically runs for an initial period of 3 years, at the end of which period all terms are renegotiated. The lease does not include contingent rentals.

(b) Capital commitments

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Contracted but not paid for		
— Leasehold improvement	4,147	16,407

22 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Key management personnel remuneration	1,348	1,454
Operating lease charges (Note (i))	—	258
Receiving guarantees for bank loans (Note (ii))	90,000	—
Receiving guarantees for borrowings from third parties (Note (iii))	139,810	180,000
Receiving guarantees for debt securities issued	—	175,000
Releasing guarantees for debt securities issued	—	(275,000)
Releasing guarantees for borrowing from third parties (Note (iii))	(230,000)	—

Notes:

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

(ii) The guarantees for bank loans during the six months ended 30 June 2018 were provided by the Chairman of the Board without charges. For the details of bank loans, please refer to Note 16(i).

(iii) The guarantees for borrowings from third parties during the six months ended 30 June 2018 were provided by the Chairman of the Board without charges. For the details of other borrowings from third parties, please refer to Note 16(ii).

22 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with key management personnel

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Guarantees received for bank loans	90,000	—
Guarantees received for other borrowings from third parties	264,810	355,000

(c) Other related party transactions

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Operating lease charges	1,024	55
Receiving guarantees for bank loans (Note (i))	90,000	90,000
Receiving guarantees for borrowings from third parties (Note (ii))	309,825	180,000
Receiving guarantees for debt securities issued	—	175,000
Releasing guarantees for bank loans (Note (i))	(90,000)	(30,000)
Releasing guarantees for debt securities issued	—	(275,000)
Releasing guarantees for borrowings from third parties (Note (ii))	(240,000)	—

Notes:

(i) The guarantees for bank loans during the six months ended 30 June 2018 were provided by other related parties of the Group without charges. For the details of bank loans, please refer to Note 16(i).

(ii) The guarantees for borrowings from third parties during the six months ended 30 June 2018 were provided by other related parties of the Group without charges. For the details of other borrowings from third parties, please refer to Note 16(ii).

(d) Balances with other related parties

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Operating lease payable (Note (i))	906	1,144
Guarantees received for bank loans (Note (ii))	180,000	180,000
Guarantees received for borrowings from third parties	424,825	355,000

Notes:

(i) On 6 July 2017, the Company and Zuoli Holdings Group Company Limited entered into a lease agreement, pursuant to which Zuoli Holdings Group Company Limited agreed to lease a property to the Group for a term of 3 years commencing from 7 July 2017 and ending on 6 July 2020.

(ii) The guarantees for bank loans during the six months ended 30 June 2018 were provided by other related parties of the Group without charges, which will be due during the period from 2 July 2018 to 19 June 2019.

23 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.

24 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTED FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. Except for the amendments to HKFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as HKFRS 9 (see Note 2(b)), the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, Leases, which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16, Leases

As discussed in the 2017 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

During the six months ended 30 June 2018, the Group continued the existing lease agreement for its office premise, with a lease term of 3 years. These leases are currently classified as operating leases.

The following is an updated information about the Group's future minimum lease payments, based on the non-cancellable operating leases that have been entered into by 30 June 2018:

	Office premise RMB'000
Amounts payable:	
Within 1 year	2,800
After 1 year but within 5 years	2,800
	5,600

Upon the initial adoption of HKFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16.

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 2018, the Company has fully complied with the CG Code.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors are set out below:

Mr. Hu Haifeng (胡海峰先生) has resigned as the general manager of the Company with effect from 3 September 2018.

Mr. Yang Sheng (楊晟先生) has served as the general manager of Jinhui Micro-finance, from April 2018 to August 2018. Since March 2018, Mr. Yang has acted as a director of 佐力(深圳)企業發展有限公司 (Zuoli (Shenzhen) Enterprise Development Co., Ltd.*). Since April 2018, Mr. Yang has served as the chairman of the board of directors of 深圳市前海佐力一方商業保理有限公司 (Shenzhen Qianhai Zuoli Yifang Commercial Factoring Co., Ltd.*). Since May 2018, he has served as the chairman of the board of directors of 德清佐力壹方商業保理有限公司 (Deqing Zuoli Yifang Commercial Factoring Co., Ltd.*) and a director of 佐力新創(上海)企業管理有限公司 (Zuoli Xinchuang (Shanghai) Enterprise Management Co., Ltd.*). Since September 2018, Mr. Yang has served as the general manager of the Company.

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 2018.

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

SHARE CAPITAL

As at 30 June 2018, 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 2018, 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:

Interests of the Directors in the Shares

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%

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 2018, 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 2018, 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 2018, the persons or corporations who had or deemed or taken to have an interest or short position in the shares and underlying shares 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%
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%

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)]
Ms. Qiu Xiaomei	H Shares	34,600,000 (L)	Interest of spouse[(6)]	11.53%	2.93%
Gawsun (HK) International Trading Co., Limited	H Shares	113,582,000 (L)	Beneficial owner	37.86%	9.63%
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 2018, 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 74.03% 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 2018, any other person or corporations who had or deemed or taken to have an interest or short position in the shares and underlying shares 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 2018, the Group has not purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDENDS

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2018 (2017: HK$nil).

CHANGE OF ADDRESS OF REGISTERED OFFICE, HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

The address of registered office, headquarters and principal place of business of the Company in the PRC has changed to No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province, the PRC with effect from 5 July 2018.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the six months ended 30 June 2018 and up to the date of this report.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

On 23 April 2018, Puhua Energy, a Controlling Shareholder, informed the Company that it had pledged 258,000,000 Domestics Shares to the Agricultural Bank of China Ltd. (Deqing County Sub-branch) which are equivalent to 21.86% of the total issued share capital of the Company as collateral for its financing from the bank.

On 5 September 2018, Mr. Shen Haiying, a Controlling Shareholder, notified the Company that he has charged 23,760,000 Domestic Shares, representing approximately 2.01% of the total issued share capital of the Company in favour of 寧波梅山保稅港區國金鼎興世澤股權投資合夥企業(有限合夥) (Ningbo Meishan Bonded Area Guojindingxing Shize Equity Investment Partnership (Limited Partnership)*) as security provided for the facility of 佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*), another Controlling Shareholder.

As of the date of this report, both Puhua Energy and Mr. Shen Haiying is deemed to be interested in 395,061,040 Domestic Shares pursuant to the Acting in Concert Agreement and by virtue of the SFO, representing approximately 33.48% of the total issued share capital of the Company.

For details of the above, please refer to the announcements of the Company dated 23 April 2018 and 5 September 2018, respectively.

AUDIT COMMITTEE

The unaudited consolidated interim results of the Group for the six months ended 30 June 2018 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 Mirco-finance Company Limited*)
YU Yin
Chairman

Hong Kong, 21 August 2018

* For identification purpose only