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 2019

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)*
Ms. Hu Fangfang

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
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
Zhejiang Province
PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Wukang Road
Deqing County
Huzhou City
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.zlkcxd.cn

STOCK CODE

6866

AUDITOR

KPMG
Certified Public Accountants

LEGAL ADVISERS

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

H SHARE REGISTRAR

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

PRINCIPAL BANKER

Shanghai Pudong Development Bank Co., Ltd.
(Huzhou Deqing Sub-branch)
Nos. 720 to 728 Wuyuan Street
Wukang Road, Deqing County
Huzhou Corty, Zhejiang Province
PRC

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

We commenced our microfinance business in the People's Republic of China (the "**PRC**"), and our business is mainly conducted in Deqing County, Huzhou City and Binjiang District, Hangzhou City, Zhejiang Province, while the predominant market share comes from Deqing County. Deqing has experienced robust economic development and growth in recent years, and is placed among the 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, biopharmaceutical 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 2019, the number of microfinance companies in Zhejiang reached 327. The average registered capital per microfinance company amounted to RMB173 million. The average loan balance per microfinance company amounted to RMB199 million.

As of 30 June 2019, 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 2019 reached RMB2,715 million, out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 76.76%. As of 30 June 2019, the balances of loans (accrued interest excluded) of the Group and these three microfinance companies reached RMB36.38 million, out of which the balance of loans (accrued interest excluded) of the Group accounted for approximately 68.88%.

BUSINESS OVERVIEW

As at 30 June 2019, 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 flexible financing solutions and loan services to customers 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.

Due to the increase in the size of our loan portfolio and strong demand for financing of our customers, our gross loan balance (excluding accrued interest) increased from RMB2,396.4 million as at 31 December 2018 to RMB2,506.5 million as at 30 June 2019.

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

	As at 30 June 2019	As at 31 December 2018
Registered capital (RMB'000)	**1,180,000**	1,180,000
Gross loans and advances to customers (excluding accrued interest, RMB'000)	**2,506,480**	2,396,383
Leverage ratio[(1)]	**2.12**	2.03

Note:

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

For the six months ended 30 June 2018 and 30 June 2019, our average interest rate for loans were 14.91% and 12.69%, respectively. Our average loan interest rate slightly decreased during the aforesaid period, mainly due to our continuous focus on serving customers with stronger repayment ability in 2019, to whom we provide loans at a lower relative interest rate in order to effectively control the credit risk under the influence of the external economic environment.

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

As at 31 December 2018 and 30 June 2019, approximately 90.2% and 84.2% of loan contracts were with maximum amount limited to RMB1 million, respectively. Among our loan contracts, the higher proportion of loans with maximum amount up to RMB1 million was mainly due to the fact that we mainly target to serve SMEs and micro enterprises, individuals in the agricultural, industrial and service sectors in Huzhou City and Hangzhou City and online retailers engaging in the business of lifestyle products, agricultural products, cultural supplies and industrial products, etc., and loan amounts granted to them are generally lower.

Loan Portfolio by Security

The following table sets out our loan portfolio by types of guarantees as at the dates indicated:

	As at 30 June 2019		As at 31 December 2018	
	RMB'000	**%**	RMB'000	%
Unsecured loans[1]	**31,901**	**1.3**	53,584	2.2
Guaranteed loans	**2,430,154**	**96.9**	2,282,460	95.3
Collateralized loans	**39,425**	**1.6**	54,899	2.3
Pledged loans	**5,000**	**0.2**	5,440	0.2
Sub-total	**2,506,480**	**100.0**	2,396,383	100.0
Accrued interest	**21,385**		18,868	
Total gross loans and advances to customers	**2,527,865**		2,415,251	

Note:

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

The following table sets out the breakdown of our total loans and advances to customers analysed by methods of assessment of allowances for impairment losses as at the dates indicated:

	As at 30 June 2019			
	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	**2,445,663**	**8,224**	**73,978**	**2,527,865**
Less: Allowances for impairment losses	**(68,656)**	**(2,223)**	**(61,123)**	**(132,002)**
Net loans and advances to customers	**2,377,007**	**6,001**	**12,855**	**2,395,863**

	As at 31 December 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	2,314,865	28,024	72,362	2,415,251
Less: Allowances for impairment losses	(68,298)	(7,817)	(57,054)	(133,169)
Net loans and advances to customers	2,246,567	20,207	15,308	2,282,082

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

	As at 30 June 2019	As at 31 December 2018
Impaired loan ratio[(1)]	**2.9%**	3.0%
Balance of impaired loans (RMB'000)	**73,978**	72,362
Gross loans and advances to customers (RMB'000)	**2,527,865**	2,415,251
Allowance coverage ratio[(2)]	**178%**	184%
Allowances for impairment losses[(3)] (RMB'000)	**131,002**	133,169
Balance of impaired loans (RMB'000)	**73,978**	72,362
Provision for impairment losses ratio[(4)]	**5.2%**	5.5%
Balance of overdue loans (RMB'000)	**77,147**	76,138
Gross loans and advances to customers (RMB'000)	**2,527,865**	2,415,251
Overdue loan ratio[(5)]	**3.1%**	3.2%

Notes:

(1) Represents the balance of impaired loans divided by the gross 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. Allowance 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 gross 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 gross loans and advances to customers.

Total impaired loans

Our balance of impaired loans basically remained stable during the aforesaid period.

Total overdue loans

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

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Unsecured loans	**17,647**	19,046
Guaranteed loans	**47,730**	45,292
Collateralized loans	**11,770**	11,800
Total overdue loans	**77,147**	76,138

We had overdue loans of RMB76.1 million and RMB77.1 million as at 31 December 2018 and 30 June 2019, respectively, accounting for 3.2% and 3.1% of our gross loan balance as at the same dates. As at 15 August 2019, approximately RMB8.2 million out of the overdue loans as of 30 June 2019 was recovered.

FINANCIAL OVERVIEW

Net interest income

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

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

	For six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Interest income from		
Loans and advances to customers	**157,755**	174,016
Bank deposits	**190**	132
Total interest income	**157,945**	174,148
Interest and commission expenses from		
Borrowings from banks	**(4,811)**	(4,618)
Borrowings from non-bank institutions	**(18,774)**	(18,294)
Lease liabilities	**(125)**	—
Bank charges	**(57)**	(444)
Total interest and commission expenses	**(23,767)**	(23,356)
Net interest income	**134,178**	150,792

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 and advances to our customers. Our loan balance increased during the six months ended 30 June 2019, generally in line with the size of our capital base, which is in turn affected by the size of our net capital and scale of financing. As at 30 June 2018 and 30 June 2019, our loan balance (excluding accrued interest) were RMB2,350.0 million and RMB2,506.5 million, respectively, and for the six months ended 30 June 2018 and 30 June 2019, our average interest rates for loans were 14.91% and 12.69%, respectively. Our average loan interest rate decreased slightly during the aforesaid period mainly due to our continuous focus on serving customers with stronger repayment ability in 2019, to whom we provide loans at a lower relative interest rate in order to effectively control the credit risk under the influence of the external economic environment in the PRC.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions as well as bank charges, were RMB23.4 million and RMB23.8 million for the six months ended 30 June 2018 and 30 June 2019, respectively. Our incurred interest expenses were primarily attributable to the interest payment on bank and non-bank institutions borrowings, including 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 (excluding accrued interest) as at 30 June 2018 and 30 June 2019 were the same and amounted to RMB180 million. Our balance of borrowings from non-bank financial institutions (excluding accrued interest) amounted to RMB424.6 million and RMB413.3 million as at 30 June 2018 and 30 June 2019, respectively.

Our net interest income for the six months ended 30 June 2018 and 30 June 2019 were RMB150.8 million and RMB134.2 million, respectively.

Other net income

Our other net income for the six months ended 30 June 2018 and 30 June 2019 were RMB12.1 million and RMB14.3 million, respectively. Our other net income increased between the aforesaid periods mainly due to the increase in government grants received in the current period.

Impairment losses

Impairment losses include provisions in relation to loans and advances to our customers. We review our portfolios of loans and advances regularly 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 deviation between estimated loss and the actual loss.

For the six months ended 30 June 2018 and 30 June 2019, our impairment losses were RMB15.0 million and RMB12.2 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, association 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	
	2019 RMB'000	2018 RMB'000
Tax and surcharge	**816**	1,537
Staff costs	**9,866**	11,192
Office expenditures and travel expenses	**3,609**	4,549
Operating lease charges	**6**	1,072
Depreciation and amortization expenses	**4,488**	3,701
Consulting and professional service fees	**3,103**	7,195
Business development expenses	**1,337**	1,424
Advertising expenses	**2,447**	2,554
Others	**1,481**	3,191
Total administrative expenses	**27,153**	36,415

Our staff costs accounted for approximately 30.7% and 36.3% of the total administrative expenses for the six months ended 30 June 2018 and 30 June 2019, respectively. Our staff costs decreased from RMB11.2 million for the six months ended 30 June 2018 to RMB9.9 million for the six months ended 30 June 2019, which was mainly attributable to the completion of our integrated business management software development, where the corresponding personnel as required reduced as a result.

Our depreciation and amortization expenses increased from RMB3.7 million for the six months ended 30 June 2018 to RMB4.5 for the six months ended 30 June 2019, which was mainly due to the adoption of HKFRS 16 "Lease", resulting in an additional depreciation for right-of-use assets.

Income tax

Our income taxes for the six months ended 30 June 2018 and 30 June 2019 were RMB28.2 million and RMB27.4 million, respectively, and our effective tax rates were 25.3% and 25.1%, respectively.

Profit for the period

Our profits were RMB83.2 million and RMB81.7 million for the six months ended 30 June 2018 and 30 June 2019, respectively.

Liquidity and capital resources

Our working capital and other capital requirements are mainly financed by equity investments from shareholders of the Company (the "**Shareholders**"), interest-bearing borrowings, 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, overseas loans or other investments plans or choices on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*). Nevertheless, as at the date of this report, save as otherwise disclosed, 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 2019, our balance of interest-bearing borrowings was approximately RMB600.9 million (31 December 2018: RMB580.1 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 and interest-bearing borrowings 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 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 2019 was RMB25.4 million. Our net cash used in operating activities reflect: (i) our profit before tax of RMB109.2 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB12.2 million, depreciation and amortization of RMB4.5 million, interest expenses of RMB23.7 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 RMB123.6 million, an increase in interest receivables and other assets of RMB0.2 million, and a decrease in accruals and other payables of RMB24.7 million; and (iii) income tax paid of RMB26.1 million.

Net cash generated from investment activities

For the six months ended 30 June 2019, our net cash generated from investing activities was RMB1.2 million. Our net cash generated from investing activities mainly consisted of: payment for the purchase of equipment and repairment of RMB1.8 million, which was partially offset by (i) income received from disposal of fixed asset amounted to RMB0.2 million; and (ii) income received from the wealth management products amounted to RMB0.4 million.

Net cash used in financing activities

For the six months ended 30 June 2019, our net cash used in financing activities is RMB6.4 million. Our net cash used in financing activities include (i) repayment of interest-bearing borrowings amounted to RMB520.0 million, partly offset by the granted interest-bearing borrowings amounted to RMB539.3 million; (ii) payment of interest on borrowings amounted to RMB18.0 million; (iii) payment of lease amounted to RMB1.3 million; and (iv) payment of dividend declared to non-controlling interests amounted to RMB6.4 million declared by Xingyao Micro-finance, the non-wholly owned subsidiary.

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 2018 and 30 June 2019, total cash and cash equivalents amounted to RMB41.7 million and RMB8.7 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 2019 RMB'000	At 31 December 2018 RMB'000
Cash in hand	**1**	3
Cash at banks	**8,249**	41,176
Other currencies in cash	**458**	528
Cash and cash equivalents	**8,708**	41,707

Interest receivables

Our interest receivables as at 31 December 2018 and 30 June 2019 amounted to RMB4.2 million and RMB0.6 million, respectively.

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 loans and advances to customers by customer types as at the dates indicated:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Corporate loans	**912,510**	759,910
Retail loans	**1,552,239**	1,561,718
Micro-loans granted online	**41,731**	74,755
Sub-total	**2,506,480**	2,396,383
Accrued interest	**21,385**	18,868
Total gross loans and advances to customers	**2,527,865**	2,415,251
Total allowances for impairment losses	**(132,002)**	(133,169)
Net loans and advances to customers	**2,395,863**	2,282,082

As at 30 June 2019, our gross loans and advances to customers (excluding accrued interest) slightly increased to RMB2,506.5 million, which was mainly resulting from our business scale expansion.

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.

As at 31 December 2018 and 30 June 2019, our overdue loan balances amounted to RMB76.1 million and RMB77.1 million, respectively, accounting for approximately 3.2% and 3.1% 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 2019 RMB'000	At 31 December 2018 RMB'000
Unsecured loans[1]	**31,901**	53,584
Guaranteed loans	**2,430,154**	2,282,460
Collateralized loans	**39,425**	54,899
Pledged loans	**5,000**	5,440
Sub-total	**2,506,480**	2,396,383
Accrued interest	**21,385**	18,868
Total gross loans and advances to customers	**2,527,865**	2,415,251

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 95.2% and 97.0% of our gross loans and advances to customers (excluding accrued interest) as at 31 December 2018 and 30 June 2019, respectively.

Other Assets

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Prepayment	**2,410**	1,282
Others	**944**	556
Total other assets	**3,354**	1,838

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 2019 RMB'000	At 31 December 2018 RMB'000
Staff costs payable	**1,359**	5,657
Value-added tax payable	**1,778**	1,826
Acquisition consideration payable	**506**	506
Tax and surcharges and other taxation payable	**175**	674
Dividends payable to non-controlling interests	**–**	6,400
Other payables	**22,832**	35,555
Total accruals and other payables	**26,650**	50,618

During the aforementioned period, our accrued expenses and other payable decreased by RMB24.0 million, mainly due to dividends payable to non-controlling interests incurred and paid by Xingyao Micro-finance, the non-wholly owned subsidiary of the Company in 2019.

Current taxation

Our current taxation refers to our income tax payable, amounted to RMB43.8 million and RMB48.9 million, respectively as at 31 December 2018 and 30 June 2019, respectively.

Operating lease commitments

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases of properties payable are as follows:

	At 31 December 2018 RMB'000
Within 1 year	2,800
After 1 year but within 5 years	1,400
Total	4,200

The Group is the lessee in respect of a certain properties which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with such policies.

Capital commitments

As at 30 June 2019 and 31 December 2018, there was no capital commitment of the Group.

Key Financial Indicators

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

	For the six months ended 30 June 2019	For the year ended 31 December 2018
Return on weighted average equity (%)	**9.2**[(2)]	8.6
Average return on assets (%)[(1)]	**6.6**[(2)]	6.2

Notes:

(1) Refers to 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) Derived by dividing the actual number by 6 and multiplying by 12 on the annualised basis.

Gearing Ratio

	As of 30 June 2019	As of 31 December 2018
Gearing Ratio (%)[(1)]	**37.4**	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.

As of 30 June 2019, our gearing ratio increased from 32.6% as of 31 December 2018 to 37.4%, mainly due to the distributed dividends amounted to RMB147.5 million, pursuant to resolution passed at the Annual General Meeting held on 28 June 2019, which, in turn, decreases the total equity attributable to equity shareholders.

Related party transactions

For the six months ended 30 June 2019, 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 2019, the amount of guarantee provided by Mr. Yu Yin and the amount of guarantee provided by other related parties amounted to RMB598.4 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). 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 2019, the Company leased a property from Zuoli Holdings Group Company Limited ("**Zuoli Holdings**"), and the depreciation expenses on the right-of-use assets and interest payment amounted to RMB1.1 million. Deqing Puhua Energy Company Limited ("**Puhua Energy**") is a controlling shareholder of the Company and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transaction constituted the continuing connected transactions under Chapter 14A of the Listing Rules.

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

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 2019, 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 2019 RMB'000	At 31 December 2018 RMB'000
Interest-bearing borrowings	**600,855**	580,079
Total	**600,855**	580,079

Our interest-bearing borrowings were the borrowings and interests required for our business operations.

Off-balance Sheet Arrangements

As at 30 June 2019, we did not have any off-balance sheet arrangements (31 December 2018: nil).

EMPLOYMENT AND EMOLUMENTS

As at 30 June 2019, the Group had approximately 141 employees (31 December 2018: 141). 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 2019.

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 2019.

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2019, the Group has pledged 60% of the equity interest in the Xingyao Micro-finance held by the Company as a guarantee for the financing of the Jinhui Micro-finance; the Group has also pledged 32% of equity interest in Jinhui Micro-finance held by the Company as a guarantee for the financing of the Company and Jinhui Micro-finance (as of 31 December 2018: pledged 60% of the equity interest in Xinyao Micro-finance held by the Company as a guarantee for the financing of Jinhui Micro-finance).

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, save as otherwise disclosed, 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 2019 were denominated in the respective Group companies' functional currencies.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: 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. General Secretary Xi Jinping delivered an important speech at the private enterprise symposium where he put forward that to solve the financing problems of private enterprises, as well as to broaden their financing means, it is necessary to leverage the function of microfinance companies, among others, acting as the financing channels. 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, to further increase our market share.

In November 2016, we acquired Xingyao Micro-finance located in Hangzhou City, Zhejiang Province of the PRC which expanded our offline business to Hangzhou City, while Binjiang District in Hangzhou City is one of the first batch of National High-tech Industrial Development Zone in China and the "Internet Capital" of China at the same time. Due to the robust development of the high-tech industry and internet industry in the zone, our competitive advantages have been further strengthened.

KPMG

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 57 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 2019 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 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

15 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 — unaudited
(Expressed in Renminbi ("RMB") '000, unless otherwise stated)

		Six months ended 30 June	
		2019	2018
			(Note)
	Note	**RMB'000**	RMB'000
Interest income		**157,945**	174,148
Interest and commission expenses		**(23,767)**	(23,356)
Net interest income	3	**134,178**	150,792
Other net income	4	**14,337**	12,060
Charge of impairment losses	5	**(12,204)**	(15,032)
Administrative expenses		**(27,153)**	(36,415)
Profit before taxation	6	**109,158**	111,405
Income tax	7	**(27,437)**	(28,159)
Profit and total comprehensive income for the period		**81,721**	83,246
Attributable to:			
Equity shareholders of the Company		**77,440**	80,165
Non-controlling interests		**4,281**	3,081
Profit for the period		**81,721**	83,246
Earnings per share			
Basic and diluted (RMB)	8	**0.07**	0.07

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Note	**At 30 June 2019 RMB'000**	At 31 December 2018 (Note) RMB'000
Assets			
Cash and cash equivalents	9	**8,708**	41,707
Interest receivables		**566**	4,229
Loans and advances to customers	10	**2,395,863**	2,282,082
Intangible assets	11	**2,670**	3,141
Fixed assets	13	**47,758**	43,589
Goodwill		**22,502**	22,502
Deferred tax assets	14	**32,228**	28,383
Other assets	15	**3,354**	1,838
Total assets		**2,513,649**	2,427,471
Liabilities			
Interest-bearing borrowings	16	**600,855**	580,079
Accruals and other payables	17	**26,650**	50,618
Dividends payable	18	**147,500**	—
Lease Liabilities	2(d)	**2,489**	—
Current taxation		**48,917**	43,757
Total liabilities		**826,411**	674,454
NET ASSETS		**1,687,238**	1,753,017
CAPITAL AND RESERVES	19		
Share capital		**1,180,000**	1,180,000
Reserves		**402,821**	472,881
Total equity attributable to equity shareholders of the Company		**1,582,821**	1,652,881
Non-controlling interests		**104,417**	100,136
TOTAL EQUITY		**1,687,238**	1,753,017

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 Note 19(b)	Capital reserve RMB'000 Note 19(c)(i)	Surplus reserve RMB'000 Note 19(c)(ii)	General reserve RMB'000 Note 19(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	—	—	—	—	(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:								
Acquisition of interest in subsidiary (Note 12)	—	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
Balance at 30 June 2018 and 1 July 2018	1,180,000	980	39,580	44,526	330,992	1,596,078	103,685	1,699,763
Changes in equity for the six months ended 31 December 2018:								
Profit and total comprehensive income for the year	—	—	—	—	56,803	56,803	2,851	59,654
Appropriation to surplus reserve	—	—	4,112	—	(4,112)	—	—	—
Appropriation to general reserve	—	—	—	14,223	(14,223)	—	—	—
Dividends to non-controlling interests approved in respect of the previous year	—	—	—	—	—	—	(6,400)	(6,400)
Balance at 31 December 2018 (Note)	1,180,000	980	43,692	58,749	369,460	1,652,881	100,136	1,753,017

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 Note 19(b)	Capital reserve RMB'000 Note 19(c)(i)	Surplus reserve RMB'000 Note 19(c)(ii)	General reserve RMB'000 Note 19(c)(iii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2018 and 1 January 2019	1,180,000	980	43,692	58,749	369,460	1,652,881	100,136	1,753,017
Changes in equity for the six months ended 30 June 2019:								
Profit and total comprehensive income for the year	–	–	–	–	77,440	77,440	4,281	81,721
Dividends approved in respect of the previous year	–	–	–	–	(147,500)	(147,500)	–	(147,500)
Balance at 30 June 2019	1,180,000	980	43,692	58,749	299,400	1,582,821	104,417	1,687,238

The accompanying notes form part of the financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019 — unaudited
(Expressed in RMB'000, unless otherwise stated)

		Six months ended 30 June	
		2019	2018 (Note)
		RMB'000	RMB'000
Operating activities			
Cash generated from/(used in) operations		**714**	(67,275)
PRC income tax paid		**(26,122)**	(12,984)
Net cash used in operating activities		**(25,408)**	(80,259)
Investing activities			
Proceeds from disposal of investments		**1,798,779**	1,230,959
Proceeds from disposal of fixed assets		**195**	—
Payment for the purchase of fixed assets and intangible assets		**(1,768)**	(13,896)
Payments on acquisition of investments		**(1,798,372)**	(1,203,010)
Net cash (used in)/generated from investing activities		**(1,166)**	14,053
Financing activities			
Proceeds from new bank loans		**160,000**	90,000
Proceeds from third parties borrowings		**379,274**	306,742
Repayment of bank loans		**(160,000)**	(90,000)
Repayment of third parties borrowings		**(359,984)**	(240,000)
Interest paid		**(18,045)**	(17,612)
Capital element of lease rentals paid		**(1,148)**	—
Interest element of lease rentals paid		**(125)**	—
Dividends paid to non-controlling interests		**(6,400)**	—
Net cash (used in)/generated from financing activities		**(6,428)**	49,130
Net decrease in cash and cash equivalents		**(33,002)**	(17,076)
Cash and cash equivalents at 1 January	9	**41,707**	37,235
Effect of foreign exchange rates changes		**3**	(2)
Cash and cash equivalents at 30 June	9	**8,708**	20,157

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

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 15 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 2018 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. KPMG's independent review report to the Board of Directors is included on page 21.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has recognised right-of-use assets based on lease liabilities. Therefore, there is no adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalized leases are primarily in relation to property as disclosed in Note 22(a).

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

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

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Classification of interest in leasehold land and buildings held for own use

In accordance with HKAS 16, *Property, plant and equipment*, the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of fixed assets held for own use on a class-by-class basis. In applying this policy, the Group has concluded that all of its fixed assets held for own use are carried at depreciated cost.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies (Continued)

(ii) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e.1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 9.90%.

To ease the transition to HKFRS 16, the group applied the following recognition exemption and practical expedient at the date of initial application of HKFRS 16:

(i) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in Note 22(a) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	At 1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	4,200
Less: effect of value-added tax	(358)
	3,842
Less: total future interest expenses	(204)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	3,638
Total lease liabilities recognised at 1 January 2019	3,638

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(c) Transitional impact (Continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets that do not meet the definition of investment property in "fixed assets" and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease Contracts RMB'000	Carrying amount at January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS16:			
Fixed assets	43,589	3,005	46,594
Total assets	**2,427,471**	**3,005**	**2,430,476**
Accruals and other payables	50,618	(633)	49,985
Lease liabilities	—	3,638	3,638
Total liabilities	**674,454**	**3,005**	**677,459**
Net assets	**1,753,017**	**—**	**1,753,017**

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 June 2019 RMB'000	At 1 January 2019 RMB'000
Included in "Fixed assets":		
Premises leased for own use, carried at depreciated cost, recognised at 1 January 2019 based on lease liabilities	**2,004**	3,005

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**2,489**	**2,568**	2,478	2,558
After 1 year but within 2 years	**–**	**–**	1,160	1,284
	2,489	**2,568**	3,638	3,842
Less: total future interest expenses		**(79)**		(204)
Present value of lease liabilities		**2,489**		3,638

(e) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(e) Impact on the financial result and cash flows of the Group (Continued)

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A) RMB'000	Add back: HKFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (Note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (D = A + B – C) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Interest and commission expenses	(23,767)	125	–	(23,642)	(23,356)
Administrative expenses	(27,153)	1,001	1,069	(27,221)	(36,415)
Profit before taxation	109,158	1,126	1,069	109,215	111,405
Profit for the year	81,721	1,126	1,069	81,778	83,246

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(e) Impact on the financial result and cash flows of the Group (Continued)

	2019			2018
	Amounts reported under HKFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under HKAS 17 (Notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (C = A + B) RMB'000	Compared to amounts reported under HKAS 17 RMB'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash generated from/(used in) operations	714	(1,273)	(559)	(67,275)
Net cash used in operating activities	(25,408)	(1,273)	(26,681)	(80,259)
Capital element of lease rentals paid	(1,148)	1,148	–	–
Interest element of lease rentals paid	(125)	125	–	–
Net cash (used in)/generated from financing activities	(6,428)	1,273	(5,155)	49,130

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

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	
	2019	2018
	RMB'000	RMB'000
Interest income arising from		
Loans and advances to customers	**157,755**	174,016
Cash at banks	**190**	132
	157,945	174,148
Interest and commission expenses arising from		
Borrowings from banks	**(4,811)**	(4,618)
Borrowings from non-bank institutions	**(18,774)**	(18,294)
Lease liabilities	**(125)**	—
Bank charges	**(57)**	(444)
	(23,767)	(23,356)
Net interest income	**134,178**	150,792

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 credit risk management are set out in Note 21(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	
	2019	2018
	RMB'000	RMB'000
Government grants	**13,943**	11,633
Investment income from wealth managements products	**407**	429
Exchange losses	**3**	(2)
Others	**(16)**	—
Total	**14,337**	12,060

5 CHARGE OF IMPAIRMENT LOSSES

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Impairment losses		
— loans and advances to customers	**9,844**	15,032
— interest receivables	**2,360**	—
Total	**12,204**	15,032

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Salaries, bonuses and allowance	**6,737**	7,956
Social insurance and other benefits	**2,481**	2,299
Contribution to retirement scheme	**648**	937
Total	**9,866**	11,192

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.

6 PROFIT BEFORE TAXATION (Continued)

(b) Other items

	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Depreciation expenses (Note 13)		
— owned fixed assets	**3,016**	3,266
— right-of-use assets	**1,001**	—
Auditors' remuneration	**899**	899
Amortization of intangible assets	**471**	435
Operating lease charges in respect of building	**—**	1,072

7 INCOME TAX

	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Current tax		
Provision for PRC income tax for the period	**31,282**	30,895
Deferred tax (Note 14)		
Origination and reversal of temporary differences	**(3,845)**	(2,736)
Total	**27,437**	28,159

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 2019 (six months ended 30 June 2018: 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 2019 and 30 June 2018.

8 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 RMB77.4 million (six months ended 30 June 2018: RMB80.2 million) and the weighted average of 1,180,000,000 ordinary shares (six months ended 30 June 2018: 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 2019 and 30 June 2018, and therefore, diluted earnings per share are the same as the basic earnings per share.

9 CASH AND CASH EQUIVALENTS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Cash in hand	**1**	3
Cash at banks	**8,249**	41,176
Others	**458**	528
Cash and cash equivalents in the cash flow statement	**8,708**	41,707

10 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Corporate loans	**912,510**	759,910
Retail loans	**1,552,239**	1,561,718
Micro-loans granted online	**41,731**	74,755
Sub-total	**2,506,480**	2,396,383
Accrued interest	**21,385**	18,868
Gross loans and advances to customers	**2,527,865**	2,415,251
Less: Allowances for impairment losses	**(132,002)**	(133,169)
Net loans and advances to customers	**2,395,863**	2,282,082

10 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Analysed by type of collateral

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Unsecured loans	**31,901**	53,584
Guaranteed loans	**2,430,154**	2,282,460
Collateralized loans	**39,425**	54,899
Pledged loans	**5,000**	5,440
Sub-total	**2,506,480**	2,396,383
Accrued interest	**21,385**	18,868
Gross loans and advances to customers	**2,527,865**	2,415,251
Less: Allowances for impairment losses	**(132,002)**	(133,169)
Net loans and advances to customers	**2,395,863**	2,282,082

(c) Analysed by industry sector

	At 30 June 2019		At 31 December 2018	
	RMB'000	**%**	RMB'000	%
Wholesale and retail	**419,050**	**17%**	314,812	13%
Manufacturing	**106,452**	**4%**	120,790	5%
Construction	**107,800**	**4%**	107,100	5%
Agriculture, forestry, animal husbandry and fishery	**35,300**	**1%**	53,500	2%
Others	**243,908**	**10%**	163,708	7%
Corporate loans	**912,510**	**36%**	759,910	32%
Retail loans	**1,552,239**	**62%**	1,561,718	65%
Micro-loans granted online	**41,731**	**2%**	74,755	3%
Sub-total	**2,506,480**	**100%**	2,396,383	100%
Accrued interest	**21,385**		18,868	
Gross loans and advances to customers	**2,527,865**		2,415,251	
Less: Allowances for impairment losses	**(132,002)**		(133,169)	
Net loans and advances to customers	**2,395,863**		2,282,082	

10 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	At 30 June 2019				
	Overdue within 3 months (inclusive) RMB'000	**Overdue more than 3 months to 6 months (inclusive) RMB'000**	**Overdue more than 6 months to one year (inclusive) RMB'000**	**Overdue more than one year RMB'000**	**Total RMB'000**
Unsecured loans	**3,245**	**2,841**	**4,840**	**6,721**	**17,647**
Guaranteed loans	**8,002**	**4,703**	**19,948**	**15,077**	**47,730**
Collateralized loans	**—**	**—**	**—**	**11,770**	**11,770**
Total	**11,247**	**7,544**	**24,788**	**33,568**	**77,147**

	At 31 December 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	2,063	2,958	3,427	10,598	19,046
Guaranteed loans	7,856	15,686	12,088	9,662	45,292
Collateralized loans	—	—	10,500	1,300	11,800
Total	9,919	18,644	26,015	21,560	76,138

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.

10 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	At 30 June 2019			
	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	**2,445,663**	**8,224**	**73,978**	**2,527,865**
Less: Allowances for impairment losses	**(68,656)**	**(2,223)**	**(61,123)**	**(132,002)**
Net loans and advances to customers	**2,377,007**	**6,001**	**12,855**	**2,395,863**

	At 31 December 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	2,314,865	28,024	72,362	2,415,251
Less: Allowances for impairment losses	(68,298)	(7,817)	(57,054)	(133,169)
Net loans and advances to customers	2,246,567	20,207	15,308	2,282,082

10 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Movements of allowances for impairment losses

	Six months ended 30 June 2019			
	12-month ECLs RMB'000	Lifetime ECLs non credit-impaired RMB'000	Lifetime ECLs credit-impaired RMB'000	Total RMB'000
At 1 January 2019	**68,298**	**7,817**	**57,054**	**133,169**
Transferred to				
— Lifetime ECLs non credit-impaired	**(196)**	**196**	**—**	**—**
— Lifetime ECLs credit-impaired	**(240)**	**(3,000)**	**3,240**	**—**
Charge/(reversal) for the period	**794**	**(2,790)**	**11,840**	**9,844**
Write off	**—**	**—**	**(13,755)**	**(13,755)**
Recoveries of loans and advances written off in previous years	**—**	**—**	**2,744**	**2,744**
At 30 June 2019	**68,656**	**2,223**	**61,123**	**132,002**

	Year ended 31 December 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	(677)	677	—	—
— Lifetime ECLs credit-impaired	(2,010)	(2,438)	4,448	—
Charge for the period	10,088	5,083	31,885	47,056
Write off	—	—	(10,414)	(10,414)
Recoveries of loans and advances written off in previous years	—	—	1,504	1,504
At 31 December 2018	68,298	7,817	57,054	133,169

10 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Gross balance of loans and advances to customers that are assessed for 12-month ECLs		
— Neither overdue nor credit-impaired	**2,445,663**	2,314,865
Sub-total	**2,445,663**	2,314,865
Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired		
— Overdue but not credit-impaired	**3,169**	3,776
— Neither overdue nor credit-impaired	**5,055**	24,248
Sub-total	**8,224**	28,024
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired		
— Overdue and credit-impaired	**73,978**	72,362
Sub-total	**73,978**	72,362
Less: Allowances for impairment losses	**(132,002)**	(133,169)
Net value	**2,395,863**	2,282,082

11 INTANGIBLE ASSETS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Computer software	**2,670**	3,141

(Expressed in RMB'000, unless otherwise stated)

12 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 2019 and 31 December 2018: Group's effective interest	Proportion of ownership interest at 30 June 2019 and 31 December 2018: 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 (i))	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") (Note (ii))	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

Notes:

(i) 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.

(ii) On 18 August 2015 (date of incorporation), Zuoli HK's 1,000,000 shares with par value of HK$1 was allotted and issued to its sole shareholder, the Company. As at 30 June 2019, the issued shares had not been paid by the Company.

13 FIXED ASSETS

	Construction in progress RMB'000	Premise RMB'000	Right-of-use assets 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 2018	10,075	15,107	–	1,174	3,469	1,730	6,188	37,743
Additions	3,007	–	–	2,588	1,408	120	12,736	19,859
Transfers in/(out) of construction in progress	(13,082)	–	–	–	–	–	13,082	–
Disposal	–	–	–	–	(415)	–	–	(415)
At 31 December 2018	–	15,107	–	3,762	4,462	1,850	32,006	57,187
Impact on initial application of HKFRS 16	–	–	3,005	–	–	–	–	3,005
At 1 January 2019	–	15,107	3,005	3,762	4,462	1,850	32,006	60,192
Additions	–	–	–	–	827	–	4,547	5,374
Disposal	–	–	–	–	(203)	(4)	–	(207)
At 30 June 2019	–	15,107	3,005	3,762	5,086	1,846	36,553	65,359
Accumulated depreciation:								
At 1 January 2018	–	(232)	–	(919)	(1,903)	(866)	(4,243)	(8,163)
Charge for the year	–	(398)	–	(329)	(707)	(299)	(4,096)	(5,829)
Disposal	–	–	–	–	394	–	–	394
At 31 December 2018 and 1 January 2019	–	(630)	–	(1,248)	(2,216)	(1,165)	(8,339)	(13,598)
Charge for the year	–	(199)	(1,001)	(319)	(464)	(137)	(1,897)	(4,017)
Disposal	–	–	–	–	12	2	–	14
At 30 June 2019		(829)	(1,001)	(1,567)	(2,668)	(1,300)	(10,236)	(17,601)
Net book value:								
At 30 June 2019	–	14,278	2,004	2,195	2,418	546	26,317	47,758
At 31 December 2018	–	14,477	–	2,514	2,246	685	23,667	43,589

14 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 2018	18,394	1,006	19,400
Charged to profit or loss	8,908	75	8,983
At 31 December 2018 and 1 January 2019	27,302	1,081	28,383
Charged to profit or loss (Note 7)	4,347	(502)	3,845
At 30 June 2019	31,649	579	32,228

15 OTHER ASSETS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Prepayment	**2,410**	1,282
Others	**944**	556
	3,354	1,838

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

16 INTEREST-BEARING BORROWINGS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Bank loans (Note (i))		
— Amortised cost	**180,000**	180,000
— Accrued interest	**202**	299
	180,202	180,299
Borrowings from third parties (Note (ii))		
— Amortised cost	**413,303**	393,910
— Accrued interest	**7,350**	5,870
	420,653	399,780
Total	**600,855**	580,079

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 2019 and 31 December 2018, none of the covenants relating to the bank loans had been breached.

(ii) During the period from 1 January 2019 to 30 June 2019, the Group obtained financings with nominal amount totaling RMB381.6 million at an interest rate ranging from 6.3 to 8.4 per annum by issuing financing products on trading platforms located in the PRC which are due from 29 March 2019 to 27 June 2020. As at 30 June 2019, the remaining nominal amount of these financial products was RMB418.4 million. The above transactions were guaranteed by certain shareholders and related parties.

17 ACCRUALS AND OTHER PAYABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Value-added tax payable	**1,778**	1,826
Accrued staff costs	**1,359**	5,657
Acquisition consideration payable	**506**	506
Tax and surcharges and other taxation payable	**175**	674
Dividends payable to non-controlling interests	**—**	6,400
Other payables	**22,832**	35,555
	26,650	50,618

18 DIVIDENDS PAYABLE

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Dividends payable (Note 19(a))	**147,500**	—

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Final dividend in respect of the previous financial year, approved during the period, of RMB0.125 per share (2018: nil)	**147,500**	—

At the annual general meeting held on 28 June 2019, the cash dividend of RMB0.125 per share before tax in aggregation amount of RMB147.5 million was approved to declare to all equity shareholders. The dividend was attributable to the year ended 31 December 2018. (During the period from 1 January 2018 to 30 June 2018: nil)

At the Xingyao Micro-finance's Shareholders' meeting held on 10 December 2018, the cash dividend of RMB16.0 million was approved to declare to all equity shareholders and paid during the period. The dividend was attributable to the year ended 31 December 2017. (2017: nil)

(b) Share capital

As at 30 June 2019, 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 12.

19 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Nature and purpose of reserves (Continued)

(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.

(d) Capital management

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

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

There were no changes in the Group's approach to capital management during the period from 1 January 2018 to 30 June 2018 and from 1 January 2019 to 30 June 2019.

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

20 FAIR VALUES MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

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

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

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

At 30 June 2019 and 31 December 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 2019 and 31 December 2018.

21 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.

21 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit risk arising from micro-finance business (Continued)

Loans and advances to customers are 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.

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 2019, 1.98% (31 December 2018: 2.09%) and 7.42% (31 December 2018: 7.80%) 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 10.

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.

21 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 2019					
	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	8,708	–	–	–	8,708	8,708
Interest receivables	566	–	–	–	566	566
Loans and advances to customers	61,551	457,523	2,188,812	14,862	2,722,748	2,395,863
Other assets	944	–	–	–	944	944
Total	71,769	457,523	2,188,812	14,862	2,732,966	2,406,081
Liabilities						
Interest-bearing borrowings	–	(162,263)	(462,520)	–	(624,783)	(600,855)
Lease liabilities	–	(1,284)	(1,284)	–	(2,568)	(2,489)
Accruals and other payables	(17,378)	(5,960)	–	–	(23,338)	(23,338)
Total	(17,378)	(169,507)	(463,804)	–	(650,689)	(626,682)
	54,391	288,016	1,725,008	14,862	2,082,277	1,779,399

21 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

	At 31 December 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	41,707	—	—	—	41,707	41,707
Interest receivables	4,229	—	—	—	4,229	4,229
Loans and advances to customers	76,138	881,294	1,610,976	505	2,568,913	2,282,082
Other assets	556	—	—	—	556	556
Total	122,630	881,294	1,610,976	505	2,615,405	2,328,574
Liabilities						
Interest-bearing borrowings	—	(109,135)	(489,826)	—	(598,961)	(580,079)
Accruals and other payables	(30,259)	(12,202)	—	—	(42,461)	(42,461)
Total	(30,259)	(121,337)	(489,826)	—	(641,422)	(622,540)
	92,371	759,957	1,121,150	505	1,973,983	1,706,034

21 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 2019 RMB'000	At 31 December 2018 RMB'000
Fixed interest rate		
Financial assets		
Loans and advances to customers	**2,395,863**	2,282,082
Financial liabilities		
Interest-bearing borrowings	**(600,855)**	(580,079)
Lease liabilities	**(2,489)**	—
Net	**1,792,519**	1,702,003
Variable interest rate		
Financial assets		
Cash at banks	**8,249**	41,176
Net	**8,249**	41,176
Net fixed rate borrowings as a percentage of total borrowings	**100.00%**	100.00%

(ii) Sensitivity analysis

At 30 June 2019 and 31 December 2018, 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 RMB31,000 and RMB154,000 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.

22 COMMITMENTS

(a) Operating lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 31 December 2018 RMB'000
Within 1 year	2,800
After 1 year but within 5 years	1,400
Total	4,200

The Group is the lessee in respect of a certain properties which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 2.

(b) Capital commitments

As at 30 June 2019 and 31 December 2018, there is no capital commitment of the Group.

23 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Key management personnel remuneration (Note (i))	**1,653**	1,348
Receiving guarantees for bank loans (Note (ii))	**160,000**	90,000
Receiving guarantees for borrowings from third parties (Note (iii))	**381,568**	139,810
Releasing guarantees for bank loans (Note (ii))	**(160,000)**	(90,000)
Releasing guarantees for borrowing from third parties (Note (iii))	**(359,984)**	(230,000)

Notes:

(i) Remuneration of key management personnel of the Group is included in "staff cost". (see Note 6(a))

(ii) The guarantees for bank loans during the six months ended 30 June 2019 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 2019 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).

23 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with key management personnel

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Guarantees received for bank loans	**180,000**	180,000
Guarantees received for other borrowings from third parties	**418,408**	396,824

(c) Other related party transactions

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Depreciation expense of right-of-use assets (Note (i))	**1,001**	—
Interest expense of lease liabilities (Note (i))	**125**	—
Operating lease charges (Note (i))	**—**	1,024
Receiving guarantees for bank loans (Note (ii))	**160,000**	90,000
Receiving guarantees for borrowings from third parties (Note (iii))	**381,568**	309,825
Releasing guarantees for bank loans (Note (ii))	**(160,000)**	(90,000)
Releasing guarantees for borrowings from third parties (Note (iii))	**(359,984)**	(240,000)

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.

The Group has initially applied HKFRS 16 as from 1 January 2019 and has recognised right-of-use assets based on lease liabilities. The Group recognised the depreciation expense of right-of-use assets and interest expense of lease liabilities during the six months ended 30 June 2019. The Group recognised operating lease charges under HKAS 17 during the six months ended 30 June 2018.

(ii) The guarantees for bank loans during the six months ended 30 June 2019 were provided by other related parties of the Group 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 2019 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).

23 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) Balances with other related parties

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Lease liabilities	**2,489**	—
Operating lease payable	**—**	633
Guarantees received for bank loans	**180,000**	180,000
Guarantees received for borrowings from third parties	**418,408**	396,824

24 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.

25 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTED FOR THE SIX MONTHS ENDED 30 JUNE 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards and interpretations, which are not yet effective for the six months ended 30 June 2019, and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Business combinations*	1 January 2020
Amendments to HKAS 1, *Presentation of financial statements*	1 January 2020
Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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 2019, 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:

On 28 June 2019, Ms. Hu Fangfang was appointed as the executive director 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 2019.

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 2019, 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 EXECUTIVE' INTERESTS IN SECURITIES

As at 30 June 2019, 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%
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 2019, 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 2019, 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 2019, 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%
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%

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)]
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 2019, 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 2019, 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 2019, 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 2019 (2018: HK$nil).

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the six months ended 30 June 2019 and up to the date of this report.

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2019, the Group has pledged 60% of the equity interest in the Xingyao Micro-finance held by the Company as a guarantee for the financing of the Jinhui Micro-finance; the Group has also pledged 32% of equity interest in Jinhui Micro-finance held by the Company as a guarantee for the financing of the Company and Jinhui Micro-finance (as of 31 December 2018: pledged 60% of the equity interest in Xinyao Micro-finance held by the Company as a guarantee for the financing of Jinhui Micro-finance).

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

On 23 April 2018, Puhua Energy, a controlling shareholder of the Company, 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 of the Company, 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.

On 8 April 2019, Mr. Yu Yin, a controlling shareholder of the Company, notified the Company that he has charged 88,000,000 domestic shares, representing approximately 7.46% of the total issued share capital of the Company, in favour of 上海浦東發展銀行股份有限公司湖州德清支行 (Huzhou Deqing branch of Shanghai Pudong Development Bank Co., Ltd.*), as security to a financing facility for 德清金匯小額貸款有限公司 (Deqing Jinhui Micro-finance Company Limited*).

As of the date of this report, both Puhua Energy, Mr. Shen Haiying and Mr. Yu Yin are 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, 5 September 2018 and 8 April 2019, respectively.

AUDIT COMMITTEE

The unaudited consolidated interim results of the Group for the six months ended 30 June 2019 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, 15 August 2019

* For identification purpose only