



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 2020



CONTENTS

- 
- 
- 2** Definitions
 - 4** Corporate Information
 - 6** Management Discussion and Analysis
 - 20** Independent Auditor's Report
 - 21** Consolidated Statement of Profit or Loss and Other Comprehensive Income
 - 22** Consolidated Statement of Financial Position
 - 23** Consolidated Statement of Changes in Equity
 - 24** Condensed Consolidated Cash Flow Statement
 - 25** Notes to the Unaudited Interim Financial Report
 - 52** Other Information

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)
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“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
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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

DEFINITIONS

“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
“Zheli Financial Service”	浙江浙里金融信息服務有限公司 (Zhejiang Zheli Financial Information Service Co., Ltd.*)
“Zuoli Holdings”	佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*)

* For identification purpose only

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Pan Zhongmin (formerly known as Pan Zhongming)

Independent non-executive Directors

Mr. Chan Kin Man
Mr. Zhao Xuqiang
Ms. Yang Jie

SUPERVISORS

Mr. Wang Peijun
Ms. Zhou Mingwan
Mr. Wang Suliang

AUDIT COMMITTEE

Mr. Chan Kin Man (*Chairman*)
Mr. Zhao Xuqiang
Ms. Yang Jie

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Zhao Xuqiang (*Chairman*)
Mr. Yu Yin
Mr. Chan Kin Man

NOMINATION COMMITTEE

Ms. Yang Jie (*Chairman*)
Mr. Yu Yin
Mr. Zhao Xuqiang

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

No. 399 Deqing Avenue
Wukang Road
Deqing County
Huzhou City
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2703, 27th Floor, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

CORPORATE INFORMATION

COMPANY'S WEBSITE

www.zlkxcd.cn

STOCK CODE

6866

AUDITOR

KPMG

Certified Public Accountants

Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

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 City, Zhejiang Province

PRC

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

We carried out our microfinance business in the PRC, and our business is mainly conducted in Deqing County, Huzhou City and Binjiang District, Hangzhou City, the PRC, where the main market share comes from Deqing County. Deqing has experienced robust economic development and growth in recent years, and is placed among the national 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 (長三角金融後台基地)” by the Zhejiang provincial government of the PRC. A number of new high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which 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 2020, the number of microfinance companies in Zhejiang reached 322 in total. The average registered capital per microfinance company amounted to RMB0.17 billion. The average loan balance per microfinance company amounted to RMB0.19 billion.

As of 30 June 2020, apart from the Group, there were three other microfinance companies in Deqing. The accumulated aggregate amount of loans granted by the Group and the three microfinance companies for the six months ended 30 June 2020 reached RMB1.92 billion, out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 80.6%. As of 30 June 2020, the balance of loans (excluding accrued interest) of the Group and these three microfinance companies reached RMB3.30 billion, out of which the balance of loans (excluding accrued interest) of the Group accounted for approximately 75.7%.

BUSINESS OVERVIEW

As at 30 June 2020, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Financial Work Office of the People's Government of Zhejiang Province. We have been providing financing solutions and loan services to customers with flexible terms through quick and comprehensive loan assessment and approval processes.

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

As of 30 June 2020, our loan balance (excluding accrued interest) amounted to RMB2,497.3 million, which was basically in line with the loan balance (excluding accrued interest) as of 31 December 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 2020	As at 31 December 2019
Registered capital (RMB'000)	1,180,000	1,180,000
Gross loans and advances to customers (excluding accrued interest, RMB'000)	2,497,290	2,482,713
Leverage ratio ⁽¹⁾	2.12	2.10

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2019 and 30 June 2020, our average interest rate for loans were 12.69% and 12.16%, respectively. Our average loan interest rate slightly decreased during the aforesaid period, mainly due to the fact that the overall economic environment is affected by the COVID-19 pandemic. The government has issued supportive policies to support small and micro enterprises to tide over the difficulties. In order to actively respond to the call of the government, we have appropriately reduced certain lending rates to maintain the competitiveness of the industry under the situation of the decline in the average interest rates of the loans granted by other companies in the industry. Furthermore, we continued to focus on serving customers with stronger repayment ability in 2020, to which we charged relatively lower interest rates in order to effectively control the credit risk.

As at 31 December 2019 and 30 June 2020, approximately 79.8% and 74.4% of loan contracts were with maximum amount limited to RMB1 million, respectively. Among our loan contracts, the higher proportion of loans with 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., the loan amounts granted to whom are generally lower.

Loans and Advances to Customers by Security

The following table sets out our loans and advances to customers by security as at the dates indicated:

	As at 30 June 2020		As at 31 December 2019	
	RMB'000	%	RMB'000	%
Unsecured loans ⁽¹⁾	32,633	1.3	29,575	1.2
Guaranteed loans	2,421,407	97.0	2,401,778	96.8
Collateralized loans	35,250	1.4	43,360	1.7
Pledged loans	8,000	0.3	8,000	0.3
Sub-total	2,497,290	100.0	2,482,713	100.0
Accrued interest	29,169		37,327	
Gross loans and advances to customers	2,526,459		2,520,040	

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2020			
	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	2,371,724	51,280	103,455	2,526,459
Less: Allowances for impairment losses	(67,029)	(10,337)	(91,102)	(168,468)
Net loans and advances to customers	2,304,695	40,943	12,353	2,357,991

	As at 31 December 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	2,412,683	158	107,199	2,520,040
Less: Allowances for impairment losses	(65,718)	(51)	(89,692)	(155,461)
Net loans and advances to customers	2,346,965	107	17,507	2,364,579

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

	As at 30 June 2020	As at 31 December 2019
Impaired loan ratio⁽¹⁾	4.1%	4.3%
Balance of impaired loans (RMB'000)	103,455	107,199
Gross loans and advances to customers (RMB'000)	2,526,459	2,520,040
Allowance coverage ratio⁽²⁾	163%	145%
Allowances for impairment losses ⁽³⁾ (RMB'000)	168,468	155,461
Balance of impaired loans (RMB'000)	103,455	107,199
Provision for impairment losses ratio⁽⁴⁾	6.7%	6.2%
Balance of overdue loans (RMB'000)	123,064	71,038
Gross loans and advances to customers (RMB'000)	2,526,459	2,520,040
Overdue loan ratio⁽⁵⁾	4.9%	2.8%

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.

MANAGEMENT DISCUSSION AND ANALYSIS

- (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 slightly decreased from RMB107.2 million as of 31 December 2019 to RMB103.5 million as of 30 June 2020, mainly due to our additional overdue and impaired loans of RMB32.6 million for the periods indicated, which was partially offset by the recovery of loans not overdue but impaired of RMB36.3 million in previous period.

Total overdue loans

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

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Unsecured loans	14,914	18,172
Guaranteed loans	76,100	34,921
Collateralized loans	32,050	17,945
Total overdue loans	123,064	71,038

We had overdue loans of RMB71.0 million and RMB123.1 million as at 31 December 2019 and 30 June 2020, respectively, accounting for 2.8% and 4.9% of our gross loan balance as at the same dates. As at 21 August 2020, RMB31.2 million out of the overdue loans as of 30 June 2020 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest income from		
Loans and advances to customers	156,325	157,755
Cash at banks	203	190
Total interest income	156,528	157,945
Interest and commission expenses from		
Borrowings from banks	(3,959)	(4,811)
Borrowings from non-bank institutions	(23,601)	(18,774)
Lease liabilities	(10)	(125)
Bank charges	(50)	(57)
Total interest and commission expenses	(27,620)	(23,767)
Net interest income	128,908	134,178

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. During the six months ended 30 June 2020, our loan balance is 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 2019 and 30 June 2020, our loan balance (excluding accrued interest) were RMB2,506.5 million and RMB2,497.3 million, respectively, and for the six months ended 30 June 2019 and 30 June 2020, our average interest rates for loans were 12.69% and 12.16%, respectively. Our average loan interest rate decreased slightly during the aforesaid period, mainly due to the fact that the overall economic environment is affected by the COVID-19 pandemic. The government has issued supportive policies to support small and micro enterprises to tide over the difficulties. In order to actively respond to the call of the government, we have appropriately reduced certain lending rates to maintain the competitiveness of the industry under the situation of the decline in the average interest rates of the loans granted by other companies in the industry. Furthermore, we continued to focus on serving customers with stronger repayment ability in 2020, to which we charged relatively lower interest rates in order to effectively control the credit risk.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions, lease liabilities as well as bank charges, were RMB23.8 million and RMB27.6 million for the six months ended 30 June 2019 and 30 June 2020, respectively. Our incurred interest expenses were primarily attributable to the interest payment on bank and non-bank institutions borrowings, including borrowings from third parties, convertible bonds and borrowings from Euro zone, which were principally applied to expand our loan business.

Our balance of bank borrowings (excluding accrued interest) as at 30 June 2019 and 30 June 2020 amounted to RMB180 million and RMB150 million, respectively. Our balance of borrowings from non-bank institutions (excluding accrued interest) amounted to RMB413.3 million and RMB433.2 million as at 30 June 2019 and 30 June 2020, respectively.

Our net interest income for the six months ended 30 June 2019 and 30 June 2020 were RMB134.2 million and RMB128.9 million, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Other net income

Our other net income for the six months ended 30 June 2019 and 30 June 2020 were RMB14.3 million and RMB7.9 million, respectively. Our other net income slightly decreased during the aforesaid periods, mainly due to the increase of RMB2 million in public welfare donations for the outbreak of the COVID-19 and foreign exchange losses of RMB1.6 million.

Impairment losses

Impairment losses include provisions in relation to loans and advances to our customers and interests receivables. We review our portfolios of loans and advances and interests receivables 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 2019 and 30 June 2020, our impairment losses were RMB12.2 million and RMB21.6 million, respectively.

Administrative expenses

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

Six months ended 30 June		
	2020 RMB'000	2019 RMB'000
Tax and surcharge	983	816
Staff costs	8,197	9,866
Office expenditures and travel expenses	2,774	3,609
Operating lease charges	17	6
Depreciation and amortization expenses	3,861	4,488
Consulting and professional service fees	3,356	3,103
Business development expenses	2,247	1,337
Advertising expenses	1,931	2,447
Others	1,195	1,481
Total administrative expenses	24,561	27,153

Our staff costs accounted for approximately 36.3% and 33.4% of the total administrative expenses for the six months ended 30 June 2019 and 30 June 2020, respectively. Our staff costs slightly decreased from RMB9.9 million for the six months ended 30 June 2019 to RMB8.2 million for the six months ended 30 June 2020, which was mainly due to the fact that during the period from February to June 2020, we were exempted from paying premiums on pension insurance, unemployment insurance and work-related injury insurance; and also our payment on basic medical insurance were halved, in accordance with the Notice on Phased Reduction or Exemption of Corporate Social Insurance Premiums (Zhe Ren She Fa [2020] No. 13) (《關於階段性減免企業社會保險費有關問題的通知(浙人社發[2020]13號)》).

MANAGEMENT DISCUSSION AND ANALYSIS

Our depreciation and amortization expenses slightly decreased from RMB4.5 million for the six months ended 30 June 2019 to RMB3.9 million for the year ended 30 June 2020, which was mainly due to certain assets being fully amortized and discontinued amortization during the period.

Income tax

Our income taxes for the six months ended 30 June 2019 and 30 June 2020 were RMB27.4 million and RMB23.1 million, respectively, and our effective tax rates were 25.1% and 25.5%, respectively.

Profit and total comprehensive income for the period

Our profit and total comprehensive income were RMB81.7 million and RMB67.6 million for the six months ended 30 June 2019 and 30 June 2020, respectively.

Liquidity and capital resources

Our working capital and other capital requirements are mainly financed by equity investments from 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 obtained 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 on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*), foreign borrowings or other investments plans or choices. Nevertheless, as at the date of this report, save as disclosed above, we did not have any firm intention or formulate any specific plan on material external debt financing in the short term.

As at 30 June 2020, our balance of interest-bearing borrowings was approximately RMB593.8 million (31 December 2019: approximately RMB716.0 million).

WORKING CAPITAL MANAGEMENT

Cash flows

Net cash generated from operating activities

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

We account equity investments 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 for granting loans is accounted for as operating cash outflow, we typically experience net cash outflows from operating activities when we expand our loan portfolio, which is generally in line with the industry norm.

Net cash generated from operating activities for the six months ended 30 June 2020 was RMB129.8 million. Our net cash generated from operating activities reflect: (i) our profit before tax of RMB90.7 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB21.6 million, depreciation and amortization of RMB3.9 million, interest expenses of RMB27.6 million, exchange losses of RMB1.6 million; (ii) the effect of changes in working capital, primarily including an increase in gross loans and advances to customers of RMB13.0 million, an increase in interest receivables and other assets of RMB4.7 million, and an increase in accruals and other payables of RMB50.0 million; and (iii) income tax paid of RMB47.9 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Net cash used in investment activities

For the six months ended 30 June 2020, our net cash used in investing activities was RMB0.7 million. Our net cash used in investing activities mainly consisted of: (i) payments for the purchase of fixed assets of RMB0.2 million; and (ii) payments for the purchase of the wealth management products and other investments of RMB3.5 million, partially offset by redemption of the wealth management products of RMB3.0 million.

Net cash used in financing activities

For the six months ended 30 June 2020, our net cash outflow used in financing activities was RMB160.2 million. Our net cash used in financing activities mainly consisted of (i) repayment of interest-bearing borrowings amounted to RMB239.8 million, partly offset by the financing from interest-bearing borrowings received of RMB108.1 million; (ii) payment of interest on borrowings amounted to RMB19.1 million; (iii) payment of lease amounted to RMB1.4 million; and (iv) payment of dividend to non-controlling interests of RMB8.0 million by Xingyao Micro-finance, the non-wholly owned subsidiary of the Group.

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 2019 and 30 June 2020, total cash and cash equivalents amounted to RMB55.3 million and RMB24.2 million, respectively.

Cash and cash equivalents

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash in hand	2	2
Cash at banks	23,622	54,906
Other currencies in cash	542	402
	24,166	55,310

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020 RMB'000	At 31 December 2019 RMB'000
Corporate loans	885,822	878,370
Retail loans	1,582,020	1,566,901
Internet loans	29,448	37,442
Sub-total	2,497,290	2,482,713
Accrued interest	29,169	37,327
Gross loans and advances to customers	2,526,459	2,520,040
Total allowances for impairment losses	(168,468)	(155,461)
Net loans and advances to customers	2,357,991	2,364,579

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 2019 and 30 June 2020, our overdue loan amounted to RMB71.0 million and RMB123.1 million, respectively, accounting for approximately 2.8% and 4.9% of our gross loans and advances to customers as at the same dates.

The following table sets out our loans and advances to customers by security as at the dates indicated:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Unsecured loans ⁽¹⁾	32,633	29,575
Guaranteed loans	2,421,407	2,401,778
Collateralized loans	35,250	43,360
Pledged loans	8,000	8,000
Sub-total	2,497,290	2,482,713
Accrued interest	29,169	37,327
Gross loans and advances to customers	2,526,459	2,520,040

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.

MANAGEMENT DISCUSSION AND ANALYSIS

The majority of our loans were guaranteed loans, which accounted for approximately 96.7% and 97.0% of our gross loans and advances to customers (excluding accrued interest) as at 31 December 2019 and 30 June 2020, respectively.

Other Assets

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Prepayment	1,634	1,173
Others	1,432	25
Total other assets	3,066	1,198

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 2020 RMB'000	At 31 December 2019 RMB'000
Staff costs payable	2,896	5,788
Value-added tax payable	1,602	1,933
Tax and surcharges and other taxation payable	83	117
Other payables	68,404	14,775
Total accruals and other payables	72,985	22,613

During the aforementioned period, our accrued expenses and other payables increased by RMB50.4 million, mainly due to the increase of other temporary payables.

Current taxation

Our current taxation refers to our income tax payable, amounted to RMB41.2 million and RMB21.5 million, respectively as at 31 December 2019 and 30 June 2020, respectively.

Capital commitments

As of 31 December 2019 and 30 June 2020, there was no capital commitment of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Key Financial Indicators

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

	For the six months ended 30 June 2020	For the year ended 31 December 2019
Return on weighted average equity (%)	7.8 ⁽²⁾	8.0
Average return on assets (%) ⁽¹⁾	5.4 ⁽²⁾	5.7

Notes:

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

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

Gearing Ratio

	As of 30 June 2020	As of 31 December 2019
Gearing Ratio (%) ⁽¹⁾	33.5	40.4

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 period/year.

Our gearing ratio decreased from 40.4% as of 31 December 2019 to 33.5% as of 30 June 2020, mainly due to the decrease in the interest-bearing borrowings of the Company.

RELATED PARTY TRANSACTIONS

For the six months ended 30 June 2020, 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 2020, the amount of guarantee provided by Mr. Yu Yin and other related parties amounted to RMB528.8 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the said provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2020, the Company leased a property from Zuoli Holdings with a depreciation expenses on right-of-use assets and interest expense of RMB1.0 million. Puhua Energy is a Controlling Shareholder and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transaction constituted a continuing connected transaction 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 conducted 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.

For the six months ended 30 June 2020, the Company paid the business management fee of RMB0.5 million to Zuoli Holdings and other connected parties. Such related party transaction constituted the connected transaction under Chapter 14A of the Listing Rules. Since all applicable percentage ratios (as set out in Rule 14.07 of the Listing Rules) are less than 5% and the total consideration is also less than HKD3 million, the connected transaction is fully exempted from Shareholders' approval, annual review and all disclosure requirements.

Save as disclosed above, for the six months ended 30 June 2020, 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 under Chapter 14A of the Listing Rules.

INDEBTEDNESS

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Interest-bearing borrowings	593,817	715,972

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

OFF-BALANCE SHEET ARRANGEMENTS

As at 30 June 2020, we did not have any off-balance sheet arrangements (31 December 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYMENT AND EMOLUMENTS

As at 30 June 2020, the Group had approximately 120 employees (31 December 2019: 128). 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 and bonds from Agricultural Bank of China Limited, the Group had no significant investments held during the six months ended 30 June 2020.

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 2020.

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2020, 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 and has also pledged 44% of equity interest in Jinhui Micro-finance held by the Company as a guarantee for the financing of the Company and Jinhui Micro-finance (31 December 2019: pledged 60% of the equity interest in Xingyao Micro-finance held by the Company as a guarantee for the financing of Jinhui Micro-finance and pledged 44% of the equity interest of Jinhui Micro-finance held by the Company as a guarantee for the financing of the Company and 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*), foreign borrowings or other investments plans or choices. Nevertheless, as at the date of this report, we did not have any firm intention or formulate any specific plan on material external debt 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. The exposure to foreign exchange risk mainly arises from foreign borrowings in EUR. The Group was not exposed to foreign exchange risk arising from any other currency risk. The management will continue to monitor the exposure to foreign exchange and adopt prudent measures to minimize exchange risk.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: 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 symposium on private enterprises, proposing to solve the financing problem of private enterprises and broaden the financing channels for private enterprises, among which micro-finance companies and other financing channels should be brought into play. The micro-finance industry is expected to benefit as a whole from the regulatory aspect.

In terms of our major market of offline business, Huzhou is the birthplace of the important thought that “lucid waters and lush mountains are invaluable assets” and the experimental area of the national green finance reform and innovation. We seize the opportunity of reform and innovation to actively explore a sustainable development road of green credit and have been officially listed as the first pilot unit of green micro-finance company in Huzhou since April 2020. In addition, as the main drafter, we participated in the formulation of “Green Micro-finance Company Construction and Evaluation Standard” (Zhejiang Province Huzhou Local Standard) (《綠色小額貸款公司建設與評價規範》(浙江省湖州市地方標準)), which has been officially issued and implemented in June 2020. The pilot construction of green micro-finance and implementation of its standards will help the Group to (i) further discover the potential customers of green micro-finance; (ii) better serve the growth of AFR (三農), as well as small and micro enterprises which are low-carbon and environmental friendly; and (iii) further increase the market share.

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

Jinhui Micro-finance, a subsidiary of the Group, is located in Deqing. As the Group’s main platform for conducting micro-finance business, it helps us consolidate our market share in Deqing and further increase our market penetration rate of AFR (三農) customers.

Xingyao Micro-finance, another subsidiary of the Group, is located in Binjiang District, Hangzhou City, and Binjiang District is one of the first batch of National High-tech Industrial Development Zone in China and Hangzhou City is the “Internet Capital” of China at the same time, so the high-tech industry and internet industry in the zone are booming and our competitive advantages has been further enhanced.

INDEPENDENT AUDITOR'S REPORT



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 21 to 51 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 2020 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 2020 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

21 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 — unaudited

(Expressed in Renminbi ("RMB") '000, unless otherwise stated)

		Six months ended 30 June	
	Note	2020 RMB'000	2019 RMB'000
Interest income		156,528	157,945
Interest and commission expenses		(27,620)	(23,767)
Net interest income	3	128,908	134,178
Other net income	4	7,894	14,337
Charge of impairment losses	5	(21,570)	(12,204)
Administrative expenses		(24,561)	(27,153)
Profit before taxation	6	90,671	109,158
Income tax	7	(23,108)	(27,437)
Profit and total comprehensive income for the period		67,563	81,721
Attributable to:			
Equity shareholders of the Company		65,108	77,440
Non-controlling interests		2,455	4,281
Profit for the period		67,563	81,721
Earnings per share			
Basic and diluted (RMB)	8	0.06	0.07

The accompanying notes form part of this interim financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 — unaudited

(Expressed in RMB'000, unless otherwise stated)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Assets			
Cash and cash equivalents	9	24,166	55,310
Interest receivables		930	83
Loans and advances to customers	10	2,357,991	2,364,579
Financial assets measured at fair value through profit or loss		499	—
Intangible assets	11	1,444	1,753
Fixed assets	13	40,546	44,045
Goodwill		22,502	22,502
Deferred tax assets	14	42,992	37,943
Other assets		3,066	1,198
Total assets		2,494,136	2,527,413
Liabilities			
Interest-bearing borrowings	15	593,817	715,972
Accruals and other payables	16	72,985	22,613
Lease Liabilities		—	1,274
Current taxation		21,466	41,249
Total liabilities		688,268	781,108
NET ASSETS		1,805,868	1,746,305
CAPITAL AND RESERVES	17		
Share capital		1,180,000	1,180,000
Reserves		522,076	456,968
Total equity attributable to equity shareholders of the Company		1,702,076	1,636,968
Non-controlling interests		103,792	109,337
TOTAL EQUITY		1,805,868	1,746,305

Approved and authorised for issue by the board of directors on 21 August 2020.

The accompanying notes form part of this interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 — unaudited
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company						Non-controlling interests RMB'000	Total equity RMB'000
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained profits	Total		
	RMB'000 Note 17(b)	RMB'000 Note 17(c)(i)	RMB'000 Note 17(c)(ii)	RMB'000 Note 17(c)(iii)	RMB'000	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
Balance at 30 June 2019 and 1 July 2019	1,180,000	980	43,692	58,749	299,400	1,582,821	104,417	1,687,238
Changes in equity for the six months ended 31 December 2019:								
Profit and total comprehensive income for the year	—	—	—	—	54,147	54,147	4,920	59,067
Appropriation to surplus reserve	—	—	356	—	(356)	—	—	—
Appropriation to general reserve	—	—	—	(22)	22	—	—	—
Balance at 31 December 2019	1,180,000	980	44,048	58,727	353,213	1,636,968	109,337	1,746,305
Balance at 31 December 2019 and 1 January 2020	1,180,000	980	44,048	58,727	353,213	1,636,968	109,337	1,746,305
Changes in equity for the six months ended 30 June 2020:								
Profit and total comprehensive income for the year	—	—	—	—	65,108	65,108	2,455	67,563
Dividends to non-controlling interests approved in respect of the previous year	—	—	—	—	—	—	(8,000)	(8,000)
Balance at 30 June 2020	1,180,000	980	44,048	58,727	418,321	1,702,076	103,792	1,805,868

The accompanying notes form part of this interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020 — unaudited
(Expressed in RMB'000, unless otherwise stated)

		Six months ended 30 June	
	Note	2020 RMB'000	2019 RMB'000
Operating activities			
Cash generated from operations		177,787	714
PRC income tax paid		(47,940)	(26,122)
Net cash generated from/(used in) operating activities		129,847	(25,408)
Investing activities			
Proceeds from disposal of investments		3,000	1,798,779
Proceeds from disposal of fixed assets		—	195
Payment for the purchase of fixed assets and intangible assets		(248)	(1,768)
Payments on acquisition of investments		(3,499)	(1,798,372)
Net cash used in investing activities		(747)	(1,166)
Financing activities			
Proceeds from new bank loans		—	160,000
Proceeds from third parties borrowings		108,053	379,274
Repayment of bank loans		—	(160,000)
Repayment of third parties borrowings		(239,770)	(359,984)
Interest paid		(19,066)	(18,045)
Capital element of lease rentals paid		(1,390)	(1,148)
Interest element of lease rentals paid		(10)	(125)
Dividends paid to non-controlling interests		(8,000)	(6,400)
Net cash used in financing activities		(160,183)	(6,428)
Net decrease in cash and cash equivalents		(31,083)	(33,002)
Cash and cash equivalents at 1 January	9	55,310	41,707
Effect of foreign exchange rates changes		(61)	3
Cash and cash equivalents at 30 June	9	24,166	8,708

The accompanying notes form part of this interim financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 21 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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. The independent auditor's report is set on page 20.

2 CHANGES IN ACCOUNTING POLICES

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRS are disclosed below:

Amendments to HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

As the Group did not enter into any acquisition during the interim reporting period, the amendments have no impact on the Group's interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

2 CHANGES IN ACCOUNTING POLICES (Continued)

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

As there is no rent concession granted to the Group during the interim reporting period, the amendment has no impact on the Group's interim financial report.

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	
	2020 RMB'000	2019 RMB'000
Interest income arising from		
Loans and advances to customers	156,325	157,755
Cash at banks	203	190
	156,528	157,945
Interest and commission expenses arising from		
Borrowings from banks	(3,959)	(4,811)
Borrowings from non-bank institutions	(23,601)	(18,774)
Lease liabilities	(10)	(125)
Bank charges	(50)	(57)
	(27,620)	(23,767)
Net interest income	128,908	134,178

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 18(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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

4 OTHER NET INCOME

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Government grants	11,534	13,943
Investment income from wealth managements products	—	407
Exchange (losses)/gains	(1,641)	3
Donations	(2,000)	(38)
Others	1	22
Total	7,894	14,337

5 CHARGE OF IMPAIRMENT LOSSES

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Impairment losses		
— loans and advances to customers	19,596	9,844
— interest receivables	1,974	2,360
Total	21,570	12,204

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Salaries, bonuses and allowance	7,143	6,737
Social insurance and other benefits	1,054	2,481
Contribution to retirement scheme	—	648
Total	8,197	9,866

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.

(b) Other items

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Depreciation expenses (Note 13)		
— owned fixed assets	2,551	3,016
— right-of-use assets	1,001	1,001
Auditors' remuneration	899	899
Amortization of intangible assets	309	471
Operating lease charges	17	—

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

7 INCOME TAX

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Current tax		
Provision for PRC income tax for the period	28,157	31,282
Deferred tax (Note 14)		
Origination and reversal of temporary differences	(5,049)	(3,845)
Total	23,108	27,437

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 2020 (six months ended 30 June 2019: 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 2020 and 30 June 2019.

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 RMB65.1 million (six months ended 30 June 2019: RMB77.4 million) and the weighted average of 1,180,000,000 ordinary shares (six months ended 30 June 2019: 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 2020 and 30 June 2019, and therefore, diluted earnings per share are the same as the basic earnings per share.

9 CASH AND CASH EQUIVALENTS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash in hand	2	2
Cash at banks	23,622	54,906
Others	542	402
Cash and cash equivalents in the cash flow statement	24,166	55,310

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

10 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Corporate loans	885,822	878,370
Retail loans	1,582,020	1,566,901
Micro-loans granted online	29,448	37,442
Sub-total	2,497,290	2,482,713
Accrued interest	29,169	37,327
Gross loans and advances to customers	2,526,459	2,520,040
Less: Allowances for impairment losses	(168,468)	(155,461)
Net loans and advances to customers	2,357,991	2,364,579

(b) Analysed by type of collateral

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Unsecured loans	32,633	29,575
Guaranteed loans	2,421,407	2,401,778
Collateralized loans	35,250	43,360
Pledged loans	8,000	8,000
Sub-total	2,497,290	2,482,713
Accrued interest	29,169	37,327
Gross loans and advances to customers	2,526,459	2,520,040
Less: Allowances for impairment losses	(168,468)	(155,461)
Net loans and advances to customers	2,357,991	2,364,579

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

10 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Analysed by industry sector

	At 30 June 2020		At 31 December 2019	
	RMB'000	%	RMB'000	%
Wholesale and retail	448,650	18%	478,850	18%
Manufacturing	57,500	2%	95,600	4%
Construction	96,800	4%	94,900	4%
Agriculture, forestry, animal husbandry and fishery	24,100	1%	15,300	1%
Others	258,772	10%	193,720	8%
Corporate loans	885,822	35%	878,370	35%
Retail loans	1,582,020	63%	1,566,901	63%
Micro-loans granted online	29,448	2%	37,442	2%
Sub-total	2,497,290	100%	2,482,713	100%
Accrued interest	29,169		37,327	
Gross loans and advances to customers	2,526,459		2,520,040	
Less: Allowances for impairment losses	(168,468)		(155,461)	
Net loans and advances to customers	2,357,991		2,364,579	

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

10 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	At 30 June 2020				
	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	109	296	470	14,039	14,914
Guaranteed loans	32,871	11,705	9,650	21,874	76,100
Collateralized loans	15,050	—	6,500	10,500	32,050
Total	48,030	12,001	16,620	46,413	123,064

	At 31 December 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	377	377	1,192	16,226	18,172
Guaranteed loans	9,349	818	4,574	20,180	34,921
Collateralized loans	6,500	—	—	11,445	17,945
Total	16,226	1,195	5,766	47,851	71,038

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

10 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	At 30 June 2020			
	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	2,371,724	51,280	103,455	2,526,459
Less: Allowances for impairment losses	(67,029)	(10,337)	(91,102)	(168,468)
Net loans and advances to customers	2,304,695	40,943	12,353	2,357,991

	At 31 December 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	2,412,683	158	107,199	2,520,040
Less: Allowances for impairment losses	(65,718)	(51)	(89,692)	(155,461)
Net loans and advances to customers	2,346,965	107	17,507	2,364,579

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

10 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Movements of allowances for impairment losses

	Six months ended 30 June 2020			
	12-month ECLs RMB'000	Lifetime ECLs non credit- impaired RMB'000	Lifetime ECLs credit- impaired RMB'000	Total RMB'000
At 1 January 2020	65,718	51	89,692	155,461
Transferred to				
— Lifetime ECLs non credit-impaired	(987)	987	—	—
— Lifetime ECLs credit-impaired	(906)	(44)	950	—
Charge for the period	3,204	9,343	7,049	19,596
Write off	—	—	(6,846)	(6,846)
Recoveries of loans and advances written off in previous years	—	—	257	257
At 30 June 2020	67,029	10,337	91,102	168,468

	Year ended 31 December 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	(20)	20	—	—
— Lifetime ECLs credit-impaired	(677)	(2,110)	2,787	—
(Reversal)/charge for the period	(1,883)	(5,676)	41,811	34,252
Write off	—	—	(15,597)	(15,597)
Recoveries of loans and advances written off in previous years	—	—	3,637	3,637
At 31 December 2019	65,718	51	89,692	155,461

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

10 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Gross balance of loans and advances to customers that are assessed for 12-month ECLs — Neither overdue nor credit-impaired	2,371,724	2,412,683
Sub-total	2,371,724	2,412,683
Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired — Overdue but not credit-impaired — Neither overdue nor credit-impaired	19,609 31,671	153 5
Sub-total	51,280	158
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired — Overdue and credit-impaired — Not overdue but credit-impaired	103,455 —	70,885 36,314
Sub-total	103,455	107,199
Less: Allowances for impairment losses	(168,468)	(155,461)
Net value	2,357,991	2,364,579

11 INTANGIBLE ASSETS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Computer software	1,444	1,753

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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 2020 and 31 December 2019		
			Group's effective interest	Held by the Company	Principal activities
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance")	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)	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

Note: 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 2020, the issued shares had not been paid by the Company.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

13 FIXED ASSETS

(a) Reconciliation of carrying amount

	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 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	—	—	181	827	5	3,851	4,864
Disposal	—	—	—	(203)	(5)	—	(208)
At 31 December 2019 and 1 January 2020	15,107	3,005	3,943	5,086	1,850	35,857	64,848
Additions	—	—	—	—	27	26	53
At 30 June 2020	15,107	3,005	3,943	5,086	1,877	35,883	64,901
Accumulated depreciation:							
At 1 January 2019	(630)	—	(1,248)	(2,216)	(1,165)	(8,339)	(13,598)
Charge for the year	(398)	(2,001)	(614)	(901)	(268)	(3,038)	(7,220)
Disposal	—	—	—	12	3	—	15
At 31 December 2019 and 1 January 2020	(1,028)	(2,001)	(1,862)	(3,105)	(1,430)	(11,377)	(20,803)
Charge for the year	(199)	(1,001)	(292)	(436)	(125)	(1,499)	(3,552)
At 30 June 2020	(1,227)	(3,002)	(2,154)	(3,541)	(1,555)	(12,876)	(24,355)
Net book value:							
At 30 June 2020	13,880	3	1,789	1,545	322	23,007	40,546
At 31 December 2019	14,079	1,004	2,081	1,981	420	24,480	44,045

(b) Right-of-use assets

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Premises leased for own use, carried at depreciated cost	3	1,004

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

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 2019	27,302	1,081	28,383
Charged to profit or loss	10,268	(708)	9,560
At 31 December 2019 and 1 January 2020	37,570	373	37,943
Charged to profit or loss (Note 7)	4,291	758	5,049
At 30 June 2020	41,861	1,131	42,992

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

15 INTEREST-BEARING BORROWINGS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Bank loans (Note (i))		
— Amortised cost	150,000	150,000
— Accrued interest	218	239
	150,218	150,239
Borrowings from third parties (Note (ii))		
— Amortised cost	297,157	425,381
— Accrued interest	9,769	6,838
	306,926	432,219
Convertible notes (Note (iii))		
— Amortised cost	75,642	74,239
— Accrued interest	644	644
	76,286	74,883
Borrowings from Euro zone — unsecured (Note (iv))		
— Amortised cost	60,387	58,476
— Accrued interest	—	155
	60,387	58,631
Total	593,817	715,972

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

15 INTEREST-BEARING BORROWINGS (Continued)

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 2020 and 31 December 2019, none of the covenants relating to the bank loans had been breached.
- (ii) During the period from 1 January 2020 to 30 June 2020, the Group obtained financings with nominal amount totaling RMB109.13 million at an interest rate ranging from 5.2% to 6.5% per annum by issuing financing products on trading platforms located in the PRC which are due from October 2020 to May 2021. As at 30 June 2020, the remaining balance of these financial products was RMB306.9 million. The above transactions were guaranteed by certain shareholders and related parties.
- (iii) On 20 November 2019, Jinhui Micro-finance, a subsidiary of the Company, issued 5 tranches of convertible notes with a total face value of RMB80.0 million. The maturity date of each tranche is 20 November 2021. The convertible notes bear interest ranging from 6.8% to 7.2% per annum and are guaranteed by certain shareholders and related parties.

The rights of the noteholders to convert the notes into ordinary shares are as follows:

- Jinhui Micro-finance may elect to repay all the convertible notes after 6 months since its issuance.
- Conversion rights are exercisable at the maturity date of the convertible notes.
- If a holder of the five tranches of convertible notes exercises its conversion rights, Jinhui Micro-finance is required to deliver ordinary shares at a rate of one ordinary share for every 1.22 notes converted. The conversion price will be subject to adjustments for reasons including but not limited to (1) bonus issue; (2) share capitalisation; (3) change in registered capital (excluding the increase in registered capital as a result of the issue of the convertible notes); (4) right issue; and (5) distribution of dividends.

Each tranche of the convertible notes, in respect of which conversion rights have not been exercised, will be redeemed at face value on 20 November 2021.

- (iv) On 11 December 2019, the Group obtained financing with nominal amount totaling EUR7.8 million at an interest rate 4.38% per annum from a financial institution located in Euro zone which is due on 11 December 2022. The financing is subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratio, as are commonly found in the 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.

16 ACCRUALS AND OTHER PAYABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Value-added tax payable	1,602	1,933
Accrued staff costs	2,896	5,788
Tax and surcharges and other taxation payable	83	117
Other payables	68,404	14,775
	72,985	22,613

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

17 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 2020 RMB'000	At 31 December 2019 RMB'000
Final dividend in respect of the previous financial year, approved during the period (2019: RMB0.125 per share)	—	147,500

The Group didn't pay any dividend during the six months period ended 30 June 2020. (During the period from 1 January 2019 to 30 June 2019: RMB147.5 million (RMB0.125 per share)).

At the Xingyao Micro-finance's shareholders' meeting held on 8 May 2020, the cash dividend of RMB20.0 million was approved to declare to all equity shareholders and paid during the six months period ended 30 June 2020. The dividend was attributable to the year ended 31 December 2019.

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 six months period ended 30 June 2019. The dividend was attributable to the year ended 31 December 2017.

(b) Share capital

As at 30 June 2020, 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.

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 RMB980,000 was recorded as Reserves-Capital reserve on the consolidated statement of financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

17 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 2019 to 30 June 2019 and from 1 January 2020 to 30 June 2020.

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

18 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.

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 2020, 1.99% (31 December 2019: 1.99%) and 7.03% (31 December 2019: 7.58%) 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

18 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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.

(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 2020					Carrying amount RMB'000
	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	
Assets						
Cash and cash equivalents	24,166	—	—	—	24,166	24,166
Interest receivables	930	—	—	—	930	930
Loans and advances to customers	123,064	395,428	2,166,284	462	2,685,238	2,357,991
Financial assets measured at fair value through profit or loss	499	—	—	—	499	499
Other assets	1,432	—	—	—	1,432	1,432
Total	150,091	395,428	2,166,284	462	2,712,265	2,385,018
Liabilities						
Interest-bearing borrowings	—	(149,773)	(330,370)	(148,969)	(629,112)	(593,817)
Accruals and other payables	(68,404)	—	—	—	(68,404)	(68,404)
Total	(68,404)	(149,773)	(330,370)	(148,969)	(697,516)	(662,221)
	81,687	245,655	1,835,914	(148,507)	2,014,749	1,722,797

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

18 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

	31 December 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	55,310	—	—	—	55,310	55,310
Interest receivables	83	—	—	—	83	83
Loans and advances to customers	71,038	613,784	2,041,654	13,074	2,739,550	2,364,579
Other assets	25	—	—	—	25	25
Total	126,456	613,784	2,041,654	13,074	2,794,968	2,419,997
Liabilities						
Interest-bearing borrowings	—	(56,572)	(553,077)	(151,401)	(761,050)	(715,972)
leased liability	—	(1,400)	—	—	(1,400)	(1,274)
Accruals and other payables	(14,775)	—	—	—	(14,775)	(14,775)
Total	(14,775)	(57,972)	(553,077)	(151,401)	(777,225)	(732,021)
	111,681	555,812	1,488,577	(138,327)	2,017,743	1,687,976

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

18 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 2020 RMB'000	At 31 December 2019 RMB'000
Fixed interest rate		
Financial assets		
Loans and advances to customers	2,357,991	2,364,579
Financial liabilities		
Interest-bearing borrowings	(593,817)	(715,972)
Lease liabilities	—	(1,274)
Net	1,764,174	1,647,333
Variable interest rate		
Financial assets		
Cash at banks	23,622	54,906
Net	23,622	54,906
Net fixed rate borrowings as a percentage of total borrowings	100.00%	100.00%

(ii) Sensitivity analysis

At 30 June 2020 and 31 December 2019, 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 RMB89,000 and RMB206,000 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

18 FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk

The Group is exposed to currency risk primarily through obtaining interest-bearing borrowings that are denominated in Euros. The currencies giving rise to this risk are primarily Euros.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the period end date.

	Exposure to foreign currencies	
	At 30 June 2020 Euros RMB'000	At 31 December 2019 Euros RMB'000
Cash and cash equivalents	—	1,954
Interest-bearing borrowings	(60,387)	(58,631)
	(60,387)	(56,677)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the list of foreign currency and the RMB would be materially unaffected by any changes in movement in value of the list of foreign currency against other currencies.

	At 30 June 2020		At 31 December 2019	
	Increase/ (decrease) in foreign exchange rates bps	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates bps	Effect on profit after tax and retained profits RMB'000
Euros	100	(453)	100	(425)
	(100)	453	(100)	425

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the Group's profit after tax in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

18 FINANCIAL RISK MANAGEMENT (Continued)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

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

Fair value hierarchy:

	At 30 June 2020			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at fair value through profit or loss				
Debt securities	—	499	—	499

At 31 December 2019, no financial instruments were measured at fair value.

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

The fair value of this debt securities was determined based on the valuation results provided by China Central Depository & Clearing Co.,Ltd., which was determined based on a valuation technique for which all significant inputs were observable market data.

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

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2019 and 30 June 2020.

19 COMMITMENTS

As at 30 June 2020 and 31 December 2019, there is no capital commitment of the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

20 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Key management personnel remuneration (Note (i))	1,330	1,653
Receiving guarantees for bank loans (Note (ii))	—	160,000
Receiving guarantees for borrowings from third parties (Note (iii))	109,130	381,568
Releasing guarantees for bank loans (Note (ii))	—	(160,000)
Releasing guarantees for borrowing from third parties (Note (iii))	(239,770)	(359,984)

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. There were no new and due bank loans during the six months ended 30 June 2020. For the details of bank loans, please refer to Note 15(i).
- (iii) The guarantees for borrowings from third parties during the six months ended 30 June 2020 were provided by the Chairman of the Board without charges. For the details of other borrowings from third parties, please refer to Note 15(ii).

(b) Balances with key management personnel

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Guarantees received for borrowing from third parties	298,800	429,440
Guarantees received for bank loans	150,000	150,000
Guarantees received for convertible notes	80,000	80,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

20 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Other related party transactions

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Administrative expenses (Note (i))	480	—
Depreciation expense of right-of-use assets (Note (ii))	1,001	1,001
Interest expense of lease liabilities (Note (ii))	10	125
Receiving guarantees for bank loans (Note (iii))	—	160,000
Receiving guarantees for borrowings from third parties (Note (iv))	109,130	381,568
Releasing guarantees for bank loans (Note (iii))	—	(160,000)
Releasing guarantees for borrowings from third parties (Note (iv))	(239,770)	(359,984)

Notes:

- (i) The utilities and entertainment fees were paid to Zuoli Holdings Group Company Limited and its subsidiary.
- (ii) 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 Company for a term of 3 years commencing from 7 July 2017 and ending on 6 July 2020. For details, please refer to the announcement of the Company dated 6 July 2017.

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 period ended 30 June 2020 and 30 June 2019.

- (iii) The guarantees for bank loans during the period ended 30 June 2019 were provided by other related parties of the Group without charges. There were no new and due bank loans during the six months ended 30 June 2020. For the details of bank loans, please refer to Note 15(i).
- (iv) The guarantees for borrowings from third parties during the period ended 30 June 2020 were provided by other related parties of the Group without charges. For the details of other borrowings from third parties, please refer to Note 15(ii).

(d) Balances with other related parties

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Lease liabilities	—	1,274
Guarantees received for bank loans	150,000	150,000
Guarantees received for borrowing from third parties	298,800	429,440
Guarantees received for convertible notes	80,000	80,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

21 IMPACTS OF COVID-19 PANDEMIC

Since the outbreak of the COVID-19 in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The Group earnestly implemented the requirements of the “Notice on Further Enhancing Financial Support for Prevention and Control of the COVID-19 (《關於進一步強化金融支持防控新型冠狀病毒感染的肺炎疫情的通知》)” and other relevant policies and regulations jointly published by the People’s Bank of China, the Ministry of Finance, the China Banking Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of Foreign Exchange, to strengthen financial support for epidemic prevention and control.

The COVID-19 has certain impact on the operation of enterprise in Zhejiang province and some industries, and the overall economic operation, which affects the asset quality or return on assets of the Group’s credit assets to a certain extent.

The Group has been closely monitoring the development of the COVID-19 and has taken proactive measures to minimize its impact on the financial condition, operating results and other aspects of the Group.

22 SUBSEQUENT EVENTS

On 7 July 2020, the Group and Zuoli Holdings Group Company Limited entered into a lease agreement, pursuant to which Zuoli Holdings Group Company Limited has agreed to lease premises to the Group for a term of three years commencing from 7 July 2020 and ending on 6 July 2023. The rent is approximately RMB3.2 million per annum. For details, please refer to the announcements of the Company dated 7 July 2020 and 10 July 2020.

OTHER INFORMATION

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 2020, the Company has fully complied with the CG Code.

UPDATE ON INFORMATION OF DIRECTORS AND SUPERVISORS

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

With effect from 29 June 2020,

- (a) Mr. Ho Yuk Ming, Hugo, Mr. Jin Xuejun and Ms. Huang Lianxi have ceased to act as independent non-executive Directors.
- (b) Mr. Chan Kin Man, Mr. Zhao Xuqiang and Ms. Yang Jie were appointed as independent non-executive Directors. Each of Mr. Chan Kin Man, Mr. Zhao Xuqiang and Ms. Yang Jie have entered into a service contract with the Company for an initial term of three years with effect from the third session of the Board and is entitled to a director's fee of HK\$150,000, RMB100,000 and RMB100,000 per annum respectively.
- (c) Mr. Dai Shengqing has retired as a shareholder representative Supervisor.
- (d) Ms. Yang Zhenlan has retired as a staff representative Supervisor.
- (e) Ms. Zhou Mingwan was appointed as a shareholder representative Supervisor. Ms. Zhou Mingwan has entered into a service contract with the Company for an initial term of three years with effect from the third session of the board of Supervisors and is entitled to a supervisor's fee of RMB6,000 per annum.
- (f) Mr. Wang Suliang was appointed as a staff representative Supervisor. Mr. Wang Suliang has entered into a service contract with the Company for a term commencing from 29 June 2020 until the expiry of the third session of the board of Supervisors and is entitled to receive a supervisor's fee of RMB6,000 per annum.

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 2020.

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.

OTHER INFORMATION

SHARE CAPITAL

As at 30 June 2020, the total issued share capital of the Company was RMB1,180,000,000, divided into 1,180,000,000 shares of RMB 1.00 each, of which 880,000,000 were Domestic Shares and 300,000,000 were H Shares.

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

As at 30 June 2020, 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 ⁽⁴⁾	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	322,461,040 (L)	Interests held jointly with another person ⁽²⁾	36.64%	27.32%
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 2020, 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 at 30 June 2020, 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 34.78% 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 34.78% 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 2020, 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.

OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2020, 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 Divisions 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 ⁽⁶⁾	Nature of interest	Percentage in the relevant class of share capital ⁽¹⁾	Percentage in the total issued share capital ⁽¹⁾
Mr. Yu Youqiang	Domestic Shares	410,461,040 (L)	Interest of a controlled corporation ⁽²⁾⁽³⁾	46.64%	34.78%
Puhua Energy	Domestic Shares	293,130,000 (L)	Beneficial owner ⁽²⁾	33.31%	24.84%
	Domestic Shares	117,331,040 (L)	Interests held jointly with another person ⁽²⁾	13.33%	9.94%
Zuoli Holdings	Domestic Shares	410,461,040 (L)	Interest of a controlled corporation ⁽²⁾⁽⁴⁾	46.64%	34.78%
Deqing Yintian	Domestic Shares	410,461,040 (L)	Interest of a controlled corporation ⁽²⁾⁽⁵⁾	46.64%	34.78%
Mr. Shen Haiying	Domestic Shares	10,030,000 (L)	Beneficial owner ⁽²⁾	1.14%	0.85%
	Domestic Shares	400,431,040 (L)	Interests held jointly with another person ⁽²⁾	45.50%	33.93%
Dingsheng Investment	Domestic Shares	410,461,040 (L)	Interests held jointly with another person ⁽²⁾	46.64%	34.78%
Mr. Zhang Jianming	Domestic Shares	19,301,040 (L)	Beneficial owner ⁽²⁾	2.19%	1.64%
	Domestic Shares	391,160,000 (L)	Interests held jointly with another person ⁽²⁾	44.45%	33.14%
Mr. Peng Tao	H Shares	67,830,000 (L)	Beneficial owner	22.61%	5.75%
Gawsun (HK) International Trading Co., Limited	H Shares	65,860,000 (L)	Beneficial owner	21.95%	5.58%
Tamai Investments Corp.	H Shares	20,650,000 (L)	Trustee	6.88%	1.75%

OTHER INFORMATION

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 2020, 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 an 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 (and of its subsidiaries, if any in the future) based on such decisions. As at 30 June 2020, 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 34.78% of the issued share capital 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 34.78% of the issued share capital in the Company.
- (3) As Puhua Energy is indirectly controlled by Mr. Yu Youqiang, Mr. Yu Youqiang is deemed to be interested in 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 the Shares held by Puhua Energy.
- (5) Deqing Yintian is wholly owned by Mr. Yu Youqiang and holds approximately 79.56% of the equity interest in Zuoli Holdings. Zuoli Holdings is controlled by Deqing Yintian and therefore Deqing Yintian is deemed to be interested in the Shares held by Zuoli Holdings.
- (6) 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 2020, 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 Divisions 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 2020, the Group has not purchased, sold or redeemed any of the Company's listed securities.

CONVERTIBLE BOND(S)

On 15 November 2019, Jinhui Micro-finance, a non-wholly owned subsidiary of the Company, entered into a bonds agreement, pursuant to which Jinhui Micro-finance has conditionally agreed to issue, and Zheli Financial Service has conditionally agreed to act as referral agent, general coordinator and manager for, the convertible bond(s) issued by Jinhui Micro-finance in an aggregate principal amount of not more than RMB80,000,000.

The bonds will be convertible into RMB65,573,770 of newly increased registered capital of Jinhui Micro-finance, representing:

- (i) approximately 5.34% of the total existing registered capital of Jinhui Micro-finance before the issuance of the bonds; and
- (ii) approximately 5.07% of the total registered capital of Jinhui Micro-finance as enlarged by full conversion of the bonds.

OTHER INFORMATION

The Company believes that the raising of funds by the issuance of the bonds by Jinhui Micro-finance is beneficial to the Company considering the recent market conditions which represent an opportunity for Jinhui Micro-finance to enhance its working capital. In doing so, Jinhui Micro-finance may strengthen its capital base and financial position, which would equip it with enhanced financial capability and flexibility for its long term business and development, and thereby increase its profitability. The net proceeds from the offering of the bonds have been fully utilized for replenishing the working capital of Jinhui Micro-finance as intended. For details, please refer to the announcement of the Company dated 18 November 2019.

INTERIM DIVIDENDS

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2020 (2019: nil).

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 22 to the unaudited interim financial report, there were no significant events after the six months ended 30 June 2020 and up to the date of this report.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

On 23 April 2018, Puhua Energy, a substantial Shareholder, had pledged 258,000,000 domestic shares (the **"First Share Charge"**) to Deqing County branch of Agricultural Bank of China Limited which are equivalent to 21.86% of the total issued share capital of the Company as security for a banking facility provided to Puhua Energy.

On 8 April 2019, Mr. Yu Yin, a Controlling Shareholder, 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 Shanghai Pudong Development Bank Co., Ltd. (Huzhou Deqing Sub-branch) as security for a facility provided to Jinhui Micro-finance.

On 20 April 2020, Puhua Energy notified the Company that the First Share Charge has been fully released. On the same date, Puhua Energy also notified the Company that it has charged 264,000,000 domestic shares, representing 22.37% of the total issued share capital of the Company, in favour of Zheli Financial Service as security for a facility provided to Zuoli Holdings.

For details of the above, please refer to the announcements of the Company dated 23 April 2018, 8 April 2019 and 20 April 2020, respectively.

AUDIT COMMITTEE

The unaudited consolidated interim results of the Group for the six months ended 30 June 2020 have been reviewed by the audit committee of the Company.

By order of the Board of
佐力科創小額貸款股份有限公司
(Zuoli Kechuang Micro-finance Company Limited*)
YU Yin
Chairman

Hong Kong, 21 August 2020

* For identification purpose only