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Zuoli Kechuang Micro-finance Company Limited*

佐力科創小額貸款股份有限公司

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

(Stock Code: 6866)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

The board (the “**Board**”) of directors (the “**Directors**”) of Zuoli Kechuang Micro-finance Company Limited (the “**Company**”) is pleased to announce the unaudited results of the Company for the six months ended 30 June 2015 (the “**Interim Results**”) prepared in accordance with the Hong Kong Financial Reporting Standards promulgated by the Hong Kong Institute of Certified Public Accountants. The Board and the audit committee of the Board have reviewed and confirmed the Interim Results.

INTERIM RESULTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015 — unaudited

(Expressed in Renminbi (“RMB”))

		Six months ended 30 June	
		2015	2014
	Note	RMB'000	RMB'000
Interest income		101,165	71,243
Interest and commission expenses		<u>(6,649)</u>	<u>(5,662)</u>
Net interest income	3	94,516	65,581
Other revenue		19,706	19,834
Impairment losses		(5,632)	(16,052)
Administrative expenses		<u>(21,389)</u>	<u>(7,980)</u>
Profit before taxation	4	87,201	61,383
Income tax	5	<u>(22,181)</u>	<u>(15,370)</u>
Profit and total comprehensive income for the period		<u>65,020</u>	<u>46,013</u>
Earnings per share			
Basic and diluted (RMB)	6	<u>0.06</u>	<u>0.06</u>

STATEMENT OF FINANCIAL POSITION

At 30 June 2015 — unaudited

(Expressed in RMB)

		At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
	Note		
Assets			
Cash and cash equivalents	7	119,463	24,488
Interest receivables		9,978	9,795
Loans and advances to customers	8	1,308,072	1,109,394
Property, plant and equipment	9	2,830	1,636
Deferred tax assets	13	11,139	15,182
Other assets	10	1,681	16,922
Total assets		<u>1,453,163</u>	<u>1,177,417</u>
Liabilities			
Interest-bearing borrowings	11	124,000	175,000
Accruals and other payables	12	4,777	21,798
Current tax liabilities		17,275	9,740
Total liabilities		<u>146,052</u>	<u>206,538</u>
NET ASSETS		<u>1,307,111</u>	<u>970,879</u>
CAPITAL AND RESERVES	14		
Share capital		1,180,000	880,000
Reserves		127,111	90,879
TOTAL EQUITY		<u>1,307,111</u>	<u>970,879</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 25 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the 2014 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

2 CHANGES IN ACCOUNTING POLICES

The HKICPA has issued the following amendments to the HKFRSs that are first effective for the current accounting period of the Company.

- Annual Improvements to HKFRSs 2010–2012 Cycle
- Annual Improvements to HKFRSs 2011–2013 Cycle

None of these developments have had a material effect on how the Company’s results and financial position for the current or prior periods have been prepared or presented. The Company has not applied any new standard or interpretation that is not effective for the current accounting period.

3 NET INTEREST INCOME

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Interest income arising from		
Loans and advances to customers	100,025	71,049
Cash at banks	1,028	194
Receivables from non-bank institutions	112	—
	<u>101,165</u>	<u>71,243</u>
Interest and commission expenses arising from		
Borrowings from banks	(6,602)	(5,541)
Borrowings from non-bank institutions	—	(99)
Bank charges	(47)	(22)
	<u>(6,649)</u>	<u>(5,662)</u>
Net interest income	<u>94,516</u>	<u>65,581</u>

The Company's customer base is diversified and no customer with whom transactions have exceeded 10% of the Company's net interest income during the period.

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

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

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, bonuses and allowance	1,861	1,085
Contribution to retirement scheme	122	66
Social insurance and other benefits	<u>1,822</u>	<u>270</u>
Total	<u>3,805</u>	<u>1,421</u>

The Company is required to participate in the pension scheme organized by the municipal government of Huzhou City, Zhejiang Province whereby the Company 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 Company 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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation expenses (<i>Note 9</i>)	507	328
Operating lease charges in respect of building	325	258
Auditors' remuneration	<u>660</u>	<u>220</u>

5 INCOME TAX

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
Provision for PRC income tax for the period	18,138	22,647
Deferred tax (<i>Note 13</i>)		
Origination and reversal of temporary differences	<u>4,043</u>	<u>(7,277)</u>
	<u>22,181</u>	<u>15,370</u>

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary Shareholders of the Company of RMB65.02 million (six months ended 30 June 2014: RMB46.01 million) and the weighted average of 1,158,453,000 ordinary shares (six months ended 30 June 2014: 741,534,000) in issue during the interim period.

There were no dilutive potential ordinary shares during each of the six months ended 30 June 2015 and 30 June 2014, and therefore, diluted earnings per share are the same as the basic earnings per share.

7 CASH AND CASH EQUIVALENTS

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Cash in hand	1	—
Cash at banks	<u>119,462</u>	<u>24,488</u>
Cash and cash equivalents in the cash flow statement	<u><u>119,463</u></u>	<u><u>24,488</u></u>

The Company's operation of micro-loan business in the PRC is conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

8 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Enterprise loans	690,850	699,580
Retail loans	<u>668,685</u>	<u>455,645</u>
Gross loans and advances to customers	<u><u>1,359,535</u></u>	<u><u>1,155,225</u></u>
Less: Allowances for impairment losses		
— Collectively assessed	(45,146)	(40,380)
— Individually assessed	<u>(6,317)</u>	<u>(5,451)</u>
Total allowances for impairment losses	<u><u>(51,463)</u></u>	<u><u>(45,831)</u></u>
Net loans and advances to customers	<u><u>1,308,072</u></u>	<u><u>1,109,394</u></u>

(b) Analysed by type of collateral

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Unsecured loans	1,240	450
Guaranteed loans	1,281,410	1,098,330
Collateralized loans	75,885	55,445
Pledged loans	<u>1,000</u>	<u>1,000</u>
Gross loans and advances to customers	<u>1,359,535</u>	<u>1,155,225</u>
Less: Allowances for impairment losses		
— Collectively assessed	(45,146)	(40,380)
— Individually assessed	<u>(6,317)</u>	<u>(5,451)</u>
Total allowances for impairment losses	<u>(51,463)</u>	<u>(45,831)</u>
Net loans and advances to customers	<u>1,308,072</u>	<u>1,109,394</u>

(c) Analysed by industry sector

	At 30 June 2015		At 31 December 2014	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Agriculture, forestry, animal husbandry and fishery	178,550	13%	195,350	17%
Construction	146,000	11%	187,000	16%
Wholesale and retail	215,110	16%	173,350	15%
Manufacturing	92,390	7%	77,030	7%
Others	<u>58,800</u>	<u>4%</u>	<u>66,850</u>	<u>6%</u>
Enterprise loans	690,850	51%	699,580	61%
Retail loans	<u>668,685</u>	<u>49%</u>	<u>455,645</u>	<u>39%</u>
Gross loans and advances to customers	1,359,535	<u>100%</u>	1,155,225	<u>100%</u>
Less: Allowances for impairment losses	<u>(51,463)</u>		<u>(45,831)</u>	
Net loans and advances to customers	<u>1,308,072</u>		<u>1,109,394</u>	

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

	At 30 June 2015				
	Overdue within 3 months (inclusive)	Overdue more than 3 months to 6 months (inclusive)	Overdue more than 6 months to one year (inclusive)	Overdue more than one year	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Collateralized loans	200	500	—	475	1,175
Guaranteed loans	<u>100</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>100</u>
Total	<u>300</u>	<u>500</u>	<u>—</u>	<u>475</u>	<u>1,275</u>

At 31 December 2014				
	Overdue within 3 months (inclusive) <i>RMB'000</i>	Overdue more than 3 months to 6 months (inclusive) <i>RMB'000</i>	Overdue more than 6 months to one year (inclusive) <i>RMB'000</i>	Overdue more than one year <i>RMB'000</i>
				Total <i>RMB'000</i>
Collateralized loans	<u>70</u>	<u>—</u>	<u>—</u>	<u>475</u>
				<u>545</u>

Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more. All amounts are shown as gross amount of overdue loans and advances to customers before any allowances for impairment losses.

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

At 30 June 2015			
	Loans and advances for which allowances are collectively assessed <i>RMB'000</i>	Loans and advances for which allowances are individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
Gross loans and advances to customers	1,342,660	16,875	1,359,535
Less: Allowances for impairment losses	<u>(45,146)</u>	<u>(6,317)</u>	<u>(51,463)</u>
Net loans and advances to customers	<u>1,297,514</u>	<u>10,558</u>	<u>1,308,072</u>

At 31 December 2014			
	Loans and advances for which allowances are collectively assessed <i>RMB'000</i>	Loans and advances for which allowances are individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
Gross loans and advances to customers	1,140,260	14,965	1,155,225
Less: Allowances for impairment losses	<u>(40,380)</u>	<u>(5,451)</u>	<u>(45,831)</u>
Net loans and advances to customers	<u>1,099,880</u>	<u>9,514</u>	<u>1,109,394</u>

(f) Movements of allowances for impairment losses

Six months ended 30 June 2015			
	Provision for impairment losses which is collectively assessed <i>RMB'000</i>	Provision for impairment losses which is individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January	40,380	5,451	45,831
Charge for the period	4,766	4,451	9,217
Reversal for the period	—	(3,585)	(3,585)
At 30 June	<u>45,146</u>	<u>6,317</u>	<u>51,463</u>

Year ended 31 December 2014			
	Provision for impairment losses which is collectively assessed <i>RMB'000</i>	Provision for impairment losses which is individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January	18,696	5,381	24,077
Charge for the year	21,684	5,092	26,776
Reversal for the year	—	(5,022)	(5,022)
At 31 December	<u>40,380</u>	<u>5,451</u>	<u>45,831</u>

(g) Analysed by credit quality

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Gross balance of loans and advances to customers		
Neither overdue nor impaired	1,342,660	1,140,260
Impaired	<u>16,875</u>	<u>14,965</u>
	<u>1,359,535</u>	<u>1,155,225</u>
Less: Allowances for impairment losses		
Neither overdue nor impaired	(45,146)	(40,380)
Impaired	<u>(6,317)</u>	<u>(5,451)</u>
	<u>(51,463)</u>	<u>(45,831)</u>
Net balance		
Neither overdue nor impaired	1,297,514	1,099,880
Impaired	<u>10,558</u>	<u>9,514</u>
	<u>1,308,072</u>	<u>1,109,394</u>

9 PROPERTY, PLANT AND EQUIPMENT

	Office and other equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:					
At 1 January 2014	570	562	286	1,545	2,963
Additions	<u>18</u>	<u>623</u>	<u>60</u>	<u>—</u>	<u>701</u>
At 31 December 2014 and 1 January 2015	588	1,185	346	1,545	3,664
Additions	<u>74</u>	<u>—</u>	<u>102</u>	<u>1,525</u>	<u>1,701</u>
At 30 June 2015	<u>662</u>	<u>1,185</u>	<u>448</u>	<u>3,070</u>	<u>5,365</u>
Accumulated depreciation:					
At 1 January 2014	(243)	(225)	(118)	(747)	(1,333)
Charge for the year	<u>(117)</u>	<u>(206)</u>	<u>(63)</u>	<u>(309)</u>	<u>(695)</u>
At 31 December 2014 and 1 January 2015	(360)	(431)	(181)	(1,056)	(2,028)
Charge for the period	<u>(65)</u>	<u>(118)</u>	<u>(42)</u>	<u>(282)</u>	<u>(507)</u>
At 30 June 2015	<u>(425)</u>	<u>(549)</u>	<u>(223)</u>	<u>(1,338)</u>	<u>(2,535)</u>
Net book value:					
At 30 June 2015	<u>237</u>	<u>636</u>	<u>225</u>	<u>1,732</u>	<u>2,830</u>
At 31 December 2014	<u>228</u>	<u>754</u>	<u>165</u>	<u>489</u>	<u>1,636</u>

10 OTHER ASSETS

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Other receivables	1,121	—
Deferred expenses	313	—
IPO service fees	—	16,237
Others	<u>247</u>	<u>685</u>
	<u>1,681</u>	<u>16,922</u>

IPO service fees were debited to equity upon the issuance of H Shares. All of the other assets were expected to be recovered or recognized as expense within one year.

11 INTEREST-BEARING BORROWINGS

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Bank loans (<i>Note</i>)		
— Unsecured	124,000	—
— Guaranteed by related parties	<u>—</u>	<u>175,000</u>
	<u>124,000</u>	<u>175,000</u>

Note: All of the Company's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Company was to breach the covenants, the loans would become payable on demand. The Company regularly monitors its compliance with these covenants. At 30 June 2015 and 31 December 2014, none of the covenants relating to the bank loans has been breached.

12 ACCRUALS AND OTHER PAYABLES

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Conditional government grants (<i>Note</i>)	—	13,000
IPO service fees payable	—	4,475
Business tax and surcharges and other taxation payable	1,644	1,286
Accrued staff cost	781	1,147
Interest payable	342	532
Other payables	<u>2,010</u>	<u>1,358</u>
	<u>4,777</u>	<u>21,798</u>

Note: The Company received conditional government grants of RMB13.0 million from Deqing County in 2014, which is conditional on the Company's successful listing of its H Shares on the Main Board of The Stock Exchange of Hong Kong Limited by 2016 according to a special meeting minute by Deqing County Government.

13 DEFERRED TAX ASSETS

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

Deferred tax assets arising from:	Provision for impairment losses RMB'000	Accrued staff cost RMB'000	Conditional government grants RMB'000	Total RMB'000
At 1 January 2014	6,019	112	—	6,131
Credited to profit or loss	<u>5,439</u>	<u>362</u>	<u>3,250</u>	<u>9,051</u>
At 31 December 2014 and 1 January 2015	11,458	474	3,250	15,182
Credited/(charged) to profit or loss (<i>Note 5</i>)	<u>(642)</u>	<u>(151)</u>	<u>(3,250)</u>	<u>(4,043)</u>
At 30 June 2015	<u>10,816</u>	<u>323</u>	<u>—</u>	<u>11,139</u>

14 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing of each component of the Company's equity for the period is set out in the statement of changes in equity.

(b) Share capital

The Company was converted into a joint stock limited liability company from a limited liability company on 28 April 2014. On 13 January 2015, 300,000,000 ordinary shares of the Company were issued and listed on Stock Exchange of Hong Kong Limited. As at 30 June 2015, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1 each.

(c) Nature and purpose of reserves

(i) Capital reserve — Capital/share premium

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

(ii) Surplus reserve

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

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

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

(iii) General risk reserve

Pursuant to relevant regulations, the Company is required to set aside a general reserve through appropriations of profit after tax according to 1.5% of the ending balance of gross risk-bearing assets to cover potential losses against these assets before 30 June 2017. As at 30 June 2015, the Company has not set aside any general reserve. The Directors of the Company decided to set aside a general risk reserve in compliance with the relevant regulations in the period from 1 July 2015 to 30 June 2017.

(d) Distributable reserves

At 31 December 2014 and 30 June 2015, the aggregate amounts of reserves available for distribution to equity owners/Shareholders of the Company, as calculated under the provisions of Company Law of the PRC, were RMB70.7 million and RMB120.6 million respectively.

15 FAIR VALUES MANAGEMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Company'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.

The Company has a team headed by the finance manager performing valuations for wealth management products, which are categorized into Level 3 of the fair value hierarchy. The Company determines the fair values of wealth management products by discounted cash flow or other valuation methods. The team reports directly to the Chief Financial Officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the Chief Financial Officer. Discussion of the valuation process and results with the Chief Financial Officer and the directors is held twice a year, to coincide with the reporting dates.

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Level 3	—	—

During the six months ended 30 June 2015, there were no transfers between instruments in Level 1 and Level 2. The movement during the period in the balance of Level 3 fair value measurements is as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
At the beginning of the period/year	—	150,000
Payment for purchases	—	520,470
Proceeds from sales	<u>—</u>	<u>(670,470)</u>
At the end of the period/year	<u>—</u>	<u>—</u>

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

The carrying amounts of the Company's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2014 and 30 June 2015.

16 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2014 and 30 June 2015 not provided for in the financial statements were as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Contracted, but not provided for	<u>256,738</u>	<u>—</u>

The above-mentioned capital commitments represent the investment commitments on acquisition.

(b) Operating lease commitments

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year	375	515
After 1 year but within 5 years	<u>549</u>	<u>515</u>
Total	<u>924</u>	<u>1,030</u>

The Company is the lessee in respect of a certain properties held under operating leases. The leases typically run for an initial period of 1–3 years, at the end of which period all terms are renegotiated. None of the leases include contingent rentals.

17 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Key management personnel remuneration	606	603
Operating lease charges (<i>Note</i>)	313	258
Receiving guarantee for loans and advances to customers	—	—
Releasing guarantee for loans and advances to customers	—	(4,300)
	<u>—</u>	<u>(4,300)</u>

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

(b) Balances with key management personnel

	At 30 June	At 31 December
	2015	2014
	RMB'000	RMB'000
Other assets	<u>313</u>	<u>350</u>

(c) Other related party transactions

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Interest income	—	1
Additions of loans and advances to customers	—	1,000
Repayment of loans and advances to customers	—	(1,000)
Receiving guarantee for bank loans	—	70,000
Releasing guarantee for bank loans	(175,000)	(70,000)
Receiving guarantee for loans and advances to customers	—	3,900
Releasing guarantee for loans and advances to customers	—	(6,100)
	<u>—</u>	<u>(6,100)</u>

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

(d) Balances with other related parties

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Guarantee received for bank loans (<i>Note</i>)	<u>—</u>	<u>175,000</u>

Note: The guarantees were provided by the related parties of the Company with no charges, and were expired on 13 January 2015.

18 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 30 June 2015, the Company held a shareholder meeting and approved the acquisition of 96.9298% of the equity interests in Deqing Jinhui Micro-finance Company Limited, for a maximum consideration of RMB256.738 million. The acquisition was substantially completed in July 2015 though the renewal of the business license with the State Administration of Industry and Commerce is still in the process.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

We principally conduct our business in Deqing, a county in Huzhou, Zhejiang, the People's Republic of China (the “PRC”). Deqing has experienced robust economic development and growth in recent years. The county was placed among the nation's top 100 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, which has helped cultivate the local financial services sector. In addition, Deqing has been designated as a “technological outstanding county (科技強縣)”, a “financial innovation demonstration county (金融創新示範縣)”, as well as the “financial back-office base in Yangtze River Delta (長三角金融後台基地)” by the Zhejiang provincial government.

Competition within the microfinance industry in Zhejiang is increasingly intense. As of 30 June 2015, the number of microfinance companies in Zhejiang reached 344. The average registered capital per microfinance company increased from approximately RMB137 million in 2009 to approximately RMB205 million in 2015. The average loan balance per microfinance company increased from RMB137.1 million as of 31 December 2009 to RMB254.46 million as of 30 June 2015.

The microfinance industry in Deqing has also seen rapid growth in the past five years. As of 30 June 2015, there were five microfinance companies in Deqing. The loan balance of microfinance companies in Deqing increased significantly from approximately RMB316 million as of 31 December 2009 to RMB2,442 million as of 30 June 2014. As of 30 June 2015, the loan balance of microfinance companies in Deqing further increased to RMB3,000 million. Annual aggregate loans also increased significantly from RMB1,621 million for the year ended 31 December 2010 to approximately RMB2,926 million as of 30 June 2014, and further increased to approximately RMB2,999 million as of 30 June 2015. The average overdue ratio of all microfinance companies in Deqing was 0.54% and 0.59% as of 30 June 2014 and 30 June 2015, respectively.

Apart from competition among microfinance companies, commercial banks, insurance companies, finance corporations and intermediary loan companies also compete with microfinance companies by providing loans with unique features and advantages.

Business Overview

As at 30 June 2015, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Financial Work Office of the People's Government of Zhejiang Province. We are dedicated to serving customers in Deqing, a county in Huzhou, Zhejiang, with robust commercial and agricultural activities, by providing financing solutions with flexible terms through quick and comprehensive loan assessment and approval processes.

Our key customers primarily consist of customers engaged in agricultural business, customers engaged in rural development activities and/or customers residing in rural areas (“AFR(三農)”), and small and medium enterprises (“SMEs”) and microenterprises in various industries.

Due to the increase in our capital base and strong demand for financing by our customers, our gross outstanding loans increased from RMB1,155.2 million as of 31 December 2014 to RMB1,359.5 million as of 30 June 2015. The following table sets forth our registered capital, gross outstanding loans and advances to customers, and leverage ratio as of the dates indicated:

Item	30 June 2015	31 December 2014
Registered capital (<i>RMB in thousands</i>)	1,180,000	880,000
Gross outstanding loans and advances to customers (<i>RMB in thousands</i>)	1,359,535	1,155,225
Leverage ratio ⁽¹⁾	<u>1.15</u>	<u>1.31</u>

Note:

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

As of 31 December 2014 and 30 June 2015, our average interest rate for loans was 15.6%. There was no change in our average interest rate during the aforesaid periods primarily because we continued to serve customers with stronger repayment ability in 2015, of which we charged a low interest rate.

We primarily serve SMEs, microenterprises and individuals in the agricultural, industrial and service sectors in Deqing. As of 31 December 2014 and 30 June 2015, we served over 460 and 490 customers, respectively.

For the six months ended 30 June 2014 and 30 June 2015, 51.7% and 53% of our loan contracts were of loan size up to RMB1.0 million, respectively.

For the six months ended 30 June 2014 and 30 June 2015, the total amount of loans we granted was RMB1,219.3 million and RMB1,398.9 million, respectively.

Loan Portfolio by Security

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

Item	30 June 2015		31 December 2014	
	RMB'000	%	RMB'000	%
Unsecured loans ⁽¹⁾	1,240	0.1	450	0.0
Guaranteed loans	1,281,410	94.2	1,098,330	95.1
Collateralized loans	75,885	5.6	55,445	4.8
Pledged loans	<u>1,000</u>	<u>0.1</u>	<u>1,000</u>	<u>0.1</u>
Total gross outstanding loans and advances to customers	<u>1,359,535</u>	<u>100.0</u>	<u>1,155,225</u>	<u>100.0</u>

Note:

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

We adopt a loan classification approach to manage our credit risk on loan portfolio. We categorize our loans by reference to the “Five-Tier Principle (五級分類原則)” set forth in the Guidance on Provisioning for Loan Losses (銀行貸款損失準備計提指引) issued by the People’s Bank of China on 2 April 2002.

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

Item	30 June 2015		31 December 2014	
	RMB'000	%	RMB'000	%
Normal	1,167,660	85.9	961,260	83.2
Special mention	175,000	12.9	179,000	15.5
Substandard	15,900	1.2	14,420	1.2
Doubtful	500	0.0	370	0.1
Loss	<u>475</u>	<u>0.0</u>	<u>175</u>	<u>0.0</u>
Total gross outstanding loans and advances to customers	<u>1,359,535</u>	<u>100.0</u>	<u>1,155,225</u>	<u>100.0</u>

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

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
Impaired loan ratio⁽¹⁾	1.2%	1.3%
Balance of impaired loans	16,875	14,965
Gross outstanding loans and advances to customers	1,359,535	1,155,225
Provision coverage ratio⁽²⁾	305%	306.3%
Allowances for impairment losses ⁽³⁾	51,463	45,831
Balance of impaired loans	16,875	14,965
Provision for impairment losses ratio⁽⁴⁾	3.8%	4.0%
Balance of overdue loans	1,275	545
Gross outstanding loans and advances to customers	1,359,535	1,155,225
Overdue loan ratio⁽⁵⁾	0.09%	0.05%

Notes:

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

Our impaired loans increased from RMB15.0 million as of 31 December 2014 to RMB16.9 million as of 30 June 2015, mainly because the gross outstanding loans and advances to customers increased from RMB1,155.2 million as of 31 December 2014 to RMB1,359.5 million as of 30 June 2015, while we continued to focus on serving customers with strong repayment ability. As the growth rate of the balance of our impaired loans from 31 December 2014 to 30 June 2015 was slightly higher than that of the allowances for impairment losses from 31 December 2014 to 30 June 2015, our provision coverage ratio, which indicates the level of provisions we set aside to cover probable loss in our loan portfolio, slightly decreased from 306.3% as of 31 December 2014 to 305% as of 30 June 2015.

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
Unsecured loans	0.0	0.0
Guaranteed loans	100	0.0
Collateralized loans	1,175	545
Pledged loans	0.0	0.0
Total overdue loans	<u>1,275</u>	<u>545</u>

We had overdue loans of RMB0.5 million and RMB1.3 million as of 31 December 2014 and 30 June 2015, respectively, accounting for 0.05% and 0.09% of our gross outstanding loans as of the same dates. RMB70,000 of the overdue loans of RMB545,000 as of 31 December 2014 was recovered in January 2015. RMB600,000 of the overdue loans of RMB1,275,000 as of 30 June 2015 was recovered in July 2015.

Financial Overview

Net interest income

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

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

Item	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Interest income from		
Loans and advances to customers	100,025	71,049
Cash at banks	1,028	194
Receivables from non-bank institutions	<u>112</u>	<u>—</u>
Total interest income	<u>101,165</u>	<u>71,243</u>
Interest and commission expenses from		
Borrowings from banks	6,602	5,541
Borrowings from non-bank institutions	—	99
Bank charges	<u>47</u>	<u>22</u>
Total interest and commission expenses	<u>6,649</u>	<u>5,662</u>
Net interest income	<u>94,516</u>	<u>65,581</u>

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rate that we charge on loans to our customers. Our outstanding loans increased during the reporting period, generally in line with the size of our capital base, which in turn is affected by the size of our registered capital and bank borrowings. Our gross outstanding loans amounted to RMB1,064.5 million and RMB1,359.5 million as of 30 June 2014 and 30 June 2015, respectively, and our average interest rate for loans was 15.6% as of 30 June 2014 and 30 June 2015. There was no change of our average interest rate during the reporting period.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions, as well as bank charges, were RMB5.7 million and RMB6.6 million for the six months ended 30 June 2014 and 30 June 2015, respectively. We incur interest expenses which are primarily affected by the average balance of bank borrowings and the interest rate charged on our bank borrowings. Such borrowings were principally used to expand our loan business. The movement in our interest expenses mainly reflected the level of our bank borrowings. In addition to bank borrowings, we also paid other borrowings interest of RMB99,000 from the fund pool managed by Microfinance Union of Huzhou City (湖州市小額貸款協會) for the six months ended 30 June 2014. The total bank charges were RMB22,000 and RMB47,000 for the six months ended 30 June 2014 and 30 June 2015, respectively.

Our net interest income for the six months ended 30 June 2014 and 30 June 2015 was RMB65.6 million and RMB94.5 million, respectively.

Other revenue

Our other revenue for the six months ended 30 June 2014 and 30 June 2015 was RMB19.8 million and RMB19.7 million, respectively. Our other revenue was mainly government grants. For the six months ended 30 June 2014 and 30 June 2015, the government grants were RMB19.7 million and RMB13.5 million, respectively.

Impairment losses

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

For the six months ended 30 June 2014 and 30 June 2015, our impairment losses were RMB16.1 million and RMB5.6 million, respectively.

Administrative expenses

Our administrative expenses mainly include: (i) business tax and surcharge; (ii) staff costs, such as salaries, bonuses and allowances paid to employees, insurance for equipment 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 service charge, business development expenses, advertising expenses and miscellaneous expenses, such as stamp duty, training fees and labor protection fees. The table below sets forth the components of our administrative expenses by nature for the years indicated:

Item	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Business tax and surcharge	5,599	3,988
Staff costs	3,805	1,421
Office expenditures and travel expenses	2,978	672
Operating lease charges	325	258
Depreciation and amortization expenses	507	328
Consulting and professional service fees	2,990	305
Business development expenses	550	141
Advertising expenses	2,108	62
Others	<u>2,527</u>	<u>805</u>
Total administrative expenses	<u><u>21,389</u></u>	<u><u>7,980</u></u>

Our business tax and surcharge mainly include: (i) business tax; (ii) city construction and maintenance tax; and (iii) education surcharge. For the six months ended 30 June 2014 and 30 June 2015, our business tax and surcharge were RMB4.0 million and RMB5.6 million, respectively, accounting for 50.0% and 26.2% of our total administrative expenses, respectively. Our business tax was RMB3.6 million and RMB5.0 million for the six months ended 30 June 2014 and 30 June 2015, respectively, accounting for 89.3% and 89.3% of our total business tax and surcharge, respectively.

Our staff costs accounted for 17.8% and 17.8% of the total administrative expenses for the six months ended 30 June 2014 and 30 June 2015, respectively. In addition to basic salary, since 2012, we also offered performance-based bonus to incentivize our customer relationship managers. For the six months ended 30 June 2014 and 30 June 2015, we paid RMB0.1 million and RMB0.1 million, respectively, to our employees as performance-based bonus, accounting for 0.1% and 0.1% of our interest income during the same period.

Income tax

Our income tax for the six months ended 30 June 2014 and 30 June 2015 was RMB15.4 million and RMB22.2 million, respectively, and our effective tax rate was 25.0% and 25.4%, respectively.

Profit for the period

As a result of the foregoing, we had profit for the period of RMB46.0 million and RMB65.0 million for the six months ended 30 June 2014 and 30 June 2015, respectively.

Liquidity and Capital Resources

The H shares of the Company (the “**H Shares**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 13 January 2015 (the “**Listing Date**”) with net proceeds from the offering of the Company of approximately HK\$338.4 million (after deducting underwriting fees and related expenses).

We have in the past funded our working capital and other capital requirements primarily by equity contributions from shareholders of the Company (the “**Shareholders**”), bank borrowings and cash flows from operations. Our liquidity and capital requirements primarily relate 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 that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than normal bank borrowings we obtain from commercial banks and potential debt financing plans, such as asset based financing, we do not expect to have any material external debt financing plan in the near future.

Working Capital Management

Net cash used in operating activities

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

We recorded equity contributions from Shareholders and bank borrowings as cash generated from financing activities, we classified the deployment of such cash in granting new loans to customers as cash used in operating activities and, as a result, we typically recorded net cash used in operating activities. Due to the lending-based nature of our business and the accounting treatment that such deployment of cash is accounted for as operating cash outflow, we typically experience net cash outflows from operating activities when we expand our loan business as a result of such accounting treatment, which is generally in line with the industry norm.

Net cash used in operating activities for the six months ended 30 June 2015 was RMB129.5 million. Our net cash flows from operating activities reflect: (i) our profit before tax of RMB87.2 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB5.6 million and interest and commission expenses of RMB6.6 million; (ii) the effect of changes in working capital, primarily including an increase in loans and advances to customers of RMB204.3 million, due to our enlarged business scale mainly because of our listing proceeds in January 2015, and a decrease in other payables of RMB16.9 million, mainly as a result of the government grants of RMB13.0 million we recorded during the first half of 2014 and transferred to other revenue in the first half of 2015; and (iii) income tax paid of RMB10.6 million.

Net cash (used in)/generated from investing activities

For the six months ended 30 June 2015, our net cash generated from investing activities was RMB1.4 million. Our net cash inflows for investing activities mainly consisted of (i) payment of lease charges and renovation costs of RMB1.2 million, and (ii) payment for equipment purchases of RMB0.2 million.

Net cash generated from financing activities

Our cash generated from financing activities consisted primarily of proceeds from equity contributions. Our cash used in financing activities consists of: (i) repayment of borrowings; (ii) interests paid; and (iii) payment of professional fees in relation to the listing.

For the six months ended 30 June 2015, our net cash generated from financing activities was RMB225.9 million. Our net cash flows from financing activities consisted of equity contributions of RMB307.6 million, which was partially offset by: (i) repayments of borrowings of RMB51.0 million; (ii) cash paid for other financing activities of RMB23.9 million, which was professional fees in relation to the listing; (iii) interests paid of RMB6.8 million.

Cash management

As our business relies primarily on our available cash, we normally set aside a sufficient amount of cash for general working capital needs, such as administrative expenses and payment of interests on bank borrowings, and use substantially all of the remainder for granting loans to our customers. As at 31 December 2014 and 30 June 2015, the total cash and cash equivalents amounted to RMB24.5 million and RMB119.5 million, respectively, which we consider to be adequate based on our actual working capital needs.

Cash and cash equivalents

Cash and cash equivalents primarily consist of our cash in hand and cash at banks. The following table sets forth our cash and cash equivalents as of the dates indicated:

Item	30 June 2015 RMB'000	31 December 2014 RMB'000
Cash in hand	1	—
Cash at banks	<u>119,462</u>	<u>24,488</u>
Cash and cash equivalents	<u><u>119,463</u></u>	<u><u>24,488</u></u>

The increase in our cash and cash equivalents from RMB24.5 million as of 31 December 2014 to RMB119.5 million as of 30 June 2015 was primarily because we hold more balance of cash and cash equivalents as of 30 June 2015 in view of the proposed payment for the acquisition of Deqing Jin Hui Micro-finance Co., Ltd* (德清金匯小額貸款有限公司) in July 2015.

Interest receivables

Our interest receivables increased from RMB9.8 million as of 31 December 2014 to RMB10.0 million as of 30 June 2015, primarily in line with the increase in our outstanding loans, which was primarily as a result of our enlarged business scale and capital base.

Loans and advances to customers

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
Loans to enterprises	690,850	699,580
Loans to individuals	<u>668,685</u>	<u>455,645</u>
Gross loans and advances to customers	<u>1,359,535</u>	<u>1,155,225</u>
Allowances for impairment losses		
— collective	(45,146)	(40,380)
— individual	<u>(6,317)</u>	<u>(5,451)</u>
Total allowances for impairment losses	<u>(51,463)</u>	<u>(45,831)</u>
Net loans and advances to customers	<u><u>1,308,072</u></u>	<u><u>1,109,394</u></u>

As at 30 June 2015, our net loans and advances to customers amounted to RMB1,308.1 million, mainly because of fund raising by listing on the Main Board of the Stock Exchange on 13 January 2015, which we used to grant loans to customers.

We focus on providing short-term loans to minimize our risk exposure and, as a result, a substantial majority of our loans and advances to customers have a term of less than one year.

We had overdue loans of RMB0.5 million and RMB1.3 million as at 31 December 2014 and 30 June 2015, respectively, accounting for 0.05% and 0.09% of our gross loans and advances to customers as at the same dates.

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
Unsecured loans ⁽¹⁾	1,240	450
Guaranteed loans	1,281,410	1,098,330
Collateralized loans	75,885	55,445
Pledged loans	<u>1,000</u>	<u>1,000</u>
Gross loans and advances to customers	<u>1,359,535</u>	<u>1,155,225</u>

Note:

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

The majority of our loans were guaranteed loans as of 31 December 2014 and 30 June 2015. Our guaranteed loans accounted for 95.1% and 94.2% of our gross loans and advances to customers as of 31 December 2014 and 30 June 2015, respectively.

Current tax liabilities

Our current tax liabilities, which represent payables of our income tax, were RMB9.7 million and RMB17.3 million, as of 31 December 2014 and 30 June 2015, respectively.

Capital commitments

As at 31 December 2014 and 30 June 2015, our outstanding capital commitments not provided for in the financial statements were as follow:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Contracted but not provided for	<u>256,738</u>	<u>—</u>

The above-mentioned capital commitments represent the investment commitments on acquisition.

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

	Six months ended 30 June 2015	Twelve months ended 31 December 2014
Return on weighted average equity	10.6%⁽²⁾	11.0%
Return on average assets ⁽¹⁾	9.9%⁽²⁾	9.6%

Notes:

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

	30 June 2015	31 December 2014
Gearing ratio	0.35%	15.50%

Note:

- (1) Represents total interest-bearing borrowings, less cash and cash equivalents, divided by total equity as of the end of a period.

Our return on weighted average equity decreased from 11.0% for the year ended 31 December 2014 to 10.6% for the six months ended 30 June 2015 primarily due to our listing on the Main Board of the Stock Exchange on 13 January 2015, and the proceeds of which led to an increase in our capital base. Our return on average assets increased for the six months ended 30 June 2015, and such increase was mainly attributable to the continued growth of our business and profit.

Our gearing ratio decreased from 15.50% as of 31 December 2014 to 0.35% as of 30 June 2015, mainly because we intended to pay for the acquisition of Deqing Jin Hui Micro-finance Co., Ltd* (德清金匯小額貸款有限公司) in July 2015 and thus retained a relatively larger amount of cash and cash equivalents balance as at 30 June 2015, while our capital base was also increased by the listing proceeds.

Related party transactions

For the six months ended 30 June 2015, we leased a property from Mr. Yu Yin, an executive Director and the chairman of the Board, and paid rental of RMB515,000; we leased a property from the younger sister of Mr. Yu Yin and paid rental of RMB110,000. Such related party transactions constitute the continuing connected

transactions under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and are fully exempted from Shareholders’ approval, annual review and all disclosure requirements.

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

Indebtedness

Borrowings

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

Item	30 June 2015 RMB’000	31 December 2014 RMB’000
Bank borrowings	<u>124,000</u>	<u>175,000</u>
Total borrowings	<u>124,000</u>	<u>175,000</u>

Our bank borrowings were the borrowings required for our business expansion.

Off-balance sheet arrangements

As of 30 June 2015, we did not have any off-balance sheet arrangements.

Employment and Emoluments

As at 30 June 2015, the Company had 39 employees. 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, housing allowance, etc.

Prospects

With the establishment of China Microfinance Companies Association (中國小額貸款公司協會) in January 2015, the financing intermediary role played by association is increasingly being recognized by the relevant authorities and the microfinance industry as a whole is expected to benefit from the regulatory aspect. In terms of our market, Deqing ranked among the nation’s top 100 counties in terms of comprehensive strength in economic, social condition, environmental and governmental management (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, which has helped cultivate the local financial services sector. In addition, Deqing has been designated as a “technological outstanding county (科技強縣)”, a “financial innovation demonstration county (金融創新示範縣)” as well as the “financial back-office base in Yangtze River Delta (長三角金融後台基地)” by Zhejiang provincial government. As such, we expect Deqing to experience continuous and stable economic growth and provide us with a relatively conducive market environment to grow our market share as we continue to introduce innovative loan and related products, enhance our market penetration and increase our competitive advantages by utilizing our enlarged capital base.

Our successful listing on the Stock Exchange further enlarges the capital scale of the Company. Pursuant to the approval from the Financial Work Office of the People’s Government of Zhejiang Province obtained by us in March 2014, we could expand our business from Deqing County to Huzhou City upon listing. We plan to expand our loan business into other areas in Huzhou City to provide services to customers outside Huzhou to the extent permitted by policies or to carry out strategic acquisitions of other microfinance companies or financial institutions subject to regulatory approval, thereby extending the geographical coverage of our business. We will also progressively expand into other major cities in Zhejiang, such as Hangzhou City and Jiaxing City in the next three to five years, so as to further undergo business expansion into Hangzhou-Jiaxing-Huzhou region and even Yangtze River Delta.

Meanwhile, we plan to expand and consolidate our business in Deqing County continuously, while expanding our marketing channel and further increasing the market penetration rate of AFR (三農) customers via setting up branches in villages and towns within Deqing County. We entered into a sales and purchase agreement with Deqing Jin Hui Micro-finance Co., Ltd* (德清金匯小額貸款有限公司) on 30 April 2015 and intended to acquire 96.9298% equity interests in such target company for a consideration of a maximum amount of RMB256.738 million.

To tap into internet financial market, we will take the initiatives to expand our online business and further expand our operation channels in addition to our offline loan business. On 13 April 2015, the Financial Work Office of the People’s Government of Zhejiang Province has approved the cooperation of the Company with micro e-commerce money lending platforms (the “**Cooperation**”), which enables the Company to provide loans representing not more than 30% of the Company’s funding available in aggregate for the granting of loans to online retailers, who engaged in the selling of daily products, agricultural products, cultural and industrial goods. The aggregate

amount of loans granted to any of such online retailers shall not exceed RMB500,000, and the relevant annualized interest rate shall not exceed 15%. The Board is of the opinion that the Cooperation marks a positive development of the Company with its official commencement of online finance business. The Board is of the view that such expansion in the scope of business would enable the Company to diversify its revenue stream, open up a channel for the provision of loan services to nationwide online retailers, break through its current geographical limitation in Huzhou and reduce its reliance on Huzhou market.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and protecting the interests of its Shareholders in an open manner.

As of the date of this announcement, the Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions (the “**Code Provisions**”) of the Corporate Governance Code (“**CG Code**”) set out in Appendix 14 to the Listing Rules. The H Shares of the Company were listed on the Stock Exchange on 13 January 2015. Throughout the period since the Listing Date, the Company has fully complied with the Code Provisions.

Mr. Ding Maoguo (“**Mr. Ding**”) resigned as an executive Director and chief financial officer of the Company (the “**Chief Financial Officer**”) with effect from 24 July 2015, to further his personal career development. The previous responsibilities of Mr. Ding as Chief Financial Officer are assumed by Ms. Hu Fangfang, the chief financial controller of the Company.

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

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for carrying out securities transactions of the Company by the Directors. After specific enquiry with all members of the Board, they confirmed that they have complied with the relevant standards stipulated in the Model Code since the Listing Date.

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

The H Shares of the Company were listed on the Stock Exchange on 13 January 2015 (the “**Listing**”). The Company has not purchased, sold or redeemed any of the Company’s listed securities from the Listing Date to 30 June 2015.

DIVIDENDS

The Company was listed on the Stock Exchange on 13 January 2015. The Board does not recommend the payment of an interim dividend for the period ended 30 June 2015.

EVENTS AFTER THE REPORTING PERIOD

On 30 June 2015, the Company held on a shareholder meeting and approved the acquisition of 96.9298% of the equity interest in Deqing Jinhui Micro-Finance Company Limited* (德清金匯小額貸款有限公司) for a consideration of maximum amount of RMB256.738 million. At present, all the conditions precedent of the Sale and Purchase Agreement had reached but is still in the process of industrial and commercial registration.

The special resolution on the transformation into a company limited by shares with foreign investment has been passed at the general meeting of the Company convened on 30 June 2015. Currently, such transformation has been approved by the Department of Commerce of Zhejiang Province and the Financial Work Office of Zhejiang Province, but is still in the process of industrial and commercial registration.

AUDIT COMMITTEE

The interim results has been reviewed by the audit committee of the Board.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zlkcxd.cn). The interim report for the six months ended 30 June 2015 containing all the information required by the Listing Rules will be dispatched to Shareholders and available on the same websites in due course.

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

Hong Kong, 25 August 2015

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

* For identification purposes only