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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the "**Board**") of directors (the "**Directors**") of 佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited*) (the "**Company**") is pleased to announce the unaudited results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2020 (the "**Interim Results**"), together with comparative figures for the corresponding period, 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 Company (the "**Audit Committee**") have reviewed and confirmed the Interim Results.

INTERIM RESULTS

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	
		2020	2019
	Note	***RMB'000***	*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 the 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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 — unaudited (continued)
(Expressed in RMB'000, unless otherwise stated)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
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 the 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							
	Share capital *RMB'000* *Note 17(b)*	**Capital reserve** *RMB'000* *Note 17(c)(i)*	**Surplus reserve** *RMB'000* *Note 17(c)(ii)*	**General reserve** *RMB'000* *Note 17(c)(iii)*	**Retained profits** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 31 December 2018 and 1 January 2019	1,180,000	980	43,692	58,749	369,460	1,652,881	100,136	1,753,017
Changes in equity for the six months ended 30 June 2019:								
Profit and total comprehensive income for the year	—	—	—	—	77,440	77,440	4,281	81,721
Dividends approved in respect of the previous year	—	—	—	—	(147,500)	(147,500)	—	(147,500)
Balance at 30 June 2019	1,180,000	980	43,692	58,749	299,400	1,582,821	104,417	1,687,238
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 the 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	
		2020	2019
	Note	***RMB'000***	*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 the 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.

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.

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	2019
	RMB'000	*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.

4 OTHER NET INCOME

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

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Six months ended 30 June	
	2020	2019
	RMB'000	*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	2019
	RMB'000	*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**	—

7 INCOME TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	*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

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

(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	

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

	At 30 June 2020				
	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**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***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)	Overdue more than 3 months to 6 months (inclusive)	Overdue more than 6 months to one year (inclusive)	Overdue more than one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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.

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

	At 30 June 2020			
	12-month ECLs	**Lifetime ECLs non credit-impaired**	**Lifetime ECLs credit-impaired**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***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	Lifetime ECLs non credit-impaired	Lifetime ECLs credit-impaired	Total
	RMB'000	*RMB'000*	*RMB'000*	*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

(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

(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	**19,609**	153
— Neither overdue nor credit-impaired	**31,671**	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	**103,455**	70,885
— Not overdue but credit-impaired	**—**	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

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	Proportion of ownership interest at 30 June 2020 and 31 December 2019: 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.

13 FIXED ASSETS

(a) Reconciliation of carrying amount

	Premise	Right-of-use assets	Office and other equipment	Motor vehicles	Electronic equipment	Leasehold improvement	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	At 31 December 2019
	RMB'000	*RMB'000*
Premises leased for own use, carried at depreciated cost	**3**	1,004

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

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:

(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

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.

(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. For details, please refer to the announcements of the Company dated 8 September 2017, 14 November 2017 and 15 March 2018, respectively, and the circular of the Company dated 20 November 2017.

(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.

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.

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					
	Overdue/ Repayment on demand	Within three months	Between three months and one year	Between one year and five years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

	31 December 2019					
	Overdue/ Repayment on demand	Within three months	Between three months and one year	Between one year and five years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

(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	At 31 December 2019
	RMB'000	*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.

(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	At 31 December 2019 Euros
	RMB'000	*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	**Effect on profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
	bps	***RMB'000***	*bps*	*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.

(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	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*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.

20 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	Six months ended 30 June	
	2020	2019
	RMB'000	*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

(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

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.

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.

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.

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	**Lifetime ECLs non credit-impaired**	**Lifetime ECLs credit-impaired**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***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	Lifetime ECLs non credit-impaired	Lifetime ECLs credit-impaired	Total
	RMB'000	*RMB'000*	*RMB'000*	*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.

(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.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*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.

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	2019
	RMB'000	*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)》).

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 of the Company (the "**Shareholders**"), interest-bearing borrowings, and cash flows from operations. Our working capital and capital requirements are primarily related to extending loans and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity level that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than the bank borrowings 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 announcement, 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: 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.

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

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	At 31 December 2019
	RMB'000	*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	At 31 December 2019
	RMB'000	*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.

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	At 31 December 2019
	RMB'000	*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	At 31 December 2019
	RMB'000	*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.

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 Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). 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.

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. 德清普華能源有限公司 (Deqing Puhua Energy Company Limited*) ("**Puhua Energy**") is a controlling shareholder ("**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	At 31 December 2019
	RMB'000	*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).

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 Xinyao 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 announcement, 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.

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 conductive market environment to grow our market share as we continue to introduce innovative loan products, broaden business channels, enhance our market penetration and increase our competitive advantages by utilizing the advantage of our capital base.

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.

USE OF PROCEEDS

The H Shares of the Company became listed on the Main Board of the Stock Exchange on 13 January 2015 with net proceeds from the global offering of approximately HK$338.4 million (after deducting underwriting commissions and related expenses). The net proceeds have been fully utilized for expanding the capital base of our loan business, in accordance with the manner as set out in the prospectus of the Company dated 30 December 2014.

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 浙江浙里金融信息服務有限公司 (Zhejiang Zheli Financial Information Service Co., Ltd.*) ("**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 Jinhui Micro-finance Registered Capital, representing:

(i) approximately 5.34% of the total existing Jinhui Micro-finance Registered Capital before the issuance of the bonds; and

(ii) approximately 5.07% of the total Jinhui Micro-finance Registered Capital as enlarged by full conversion of the bonds.

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. Jinhui Micro-finance intends to use the net proceeds from the offering of the bonds to replenish its working capital. The net proceeds have been fully utilized for replenishing the working capital of Jinhui Micro-finance. For details, please refer to the announcement of the Company dated 18 November 2019.

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 announcement, 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 Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 June 2020, the Company has fully complied with the CG Code.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors and supervisors of our Company. After specific enquiry with all the Directors and supervisors of the Company, they have confirmed fully compliance with the relevant standards stipulated in the Model Code throughout the six months ended 30 June 2020.

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, is likely to be in possession of inside information in relation to the securities of the Company, has also been requested not to deal in securities of the Company when he/she would be prohibited from dealing by the Model Code as if he/she was a director.

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

The Group has not purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2020.

INTERIM DIVIDENDS

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

EVENTS AFTER THE PERIOD

Save as disclosed in note 22 to the Interim Results, there were no significant events after the six months ended 30 June 2020 and up to the date of this announcement.

CHARGE OF DOMESTIC SHARES BY SUBSTANTIAL SHAREHOLDER

On 23 April 2018, Puhua Energy, a substantial shareholder of the Company, had pledged 258,000,000 domestic shares (the "**First Share Charge**") to the 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.

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 佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*).

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 Interim Results has been reviewed by the Audit Committee.

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 2020 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

By order of the Board
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

As at the date of this announcement, the executive Directors are Mr. Yu Yin, Mr. Zheng Xuegen, Mr. Yang Sheng and Ms. Hu Fangfang; the non-executive Director is Mr. Pan Zhongmin; and the independent non-executive Directors are Mr. Chan Kin Man, Mr. Zhao Xuqiang and Ms. Yang Jie.

* *For identification purpose only*