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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)

2020 ANNUAL RESULTS ANNOUNCEMENT

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 audited annual results (the “**Annual Results**”) of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020, together with comparative figures for the corresponding period, prepared in accordance with the Hong Kong Financial Reporting Standards (the “**HKFRSs**”) 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 Annual Results.

ANNUAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

(Expressed in Renminbi (“RMB”) ’000, unless otherwise stated)

	<i>Note</i>	2020 RMB’000	2019 RMB’000
Interest income		304,952	320,349
Interest and commission expenses		(48,978)	(49,553)
Net interest income	2	255,974	270,796
Other net income	3	7,681	14,172
Impairment losses	4	(48,833)	(36,725)
Administrative expenses		(52,750)	(59,761)
Profit before taxation	5	162,072	188,482
Income tax	6	(44,249)	(47,694)
Profit and total comprehensive income for the year		117,823	140,788
Attributable to:			
Equity shareholders of the Company		110,244	131,587
Non-controlling interests		7,579	9,201
Profit for the year		117,823	140,788
Earnings per share			
Basic and diluted (RMB)	9	0.09	0.11

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

(Expressed in RMB'000, unless otherwise stated)

		31 December 2020	31 December 2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Cash and cash equivalents	10(a)	78,229	55,310
Interests receivables		988	83
Loans and advances to customers	11	2,400,114	2,364,579
Financial assets measured at fair value through profit or loss	12	1,010	—
Intangible assets	13	1,136	1,753
Goodwill	14	20,940	22,502
Fixed assets	16	50,888	44,045
Deferred tax assets	21(b)	48,945	37,943
Other assets	17	2,129	1,198
Total assets		<u>2,604,379</u>	<u>2,527,413</u>
Liabilities			
Interest-bearing borrowings	18	656,197	715,972
Lease liabilities	19	6,859	1,274
Accruals and other payables	20	46,317	22,613
Current taxation	21(a)	46,078	41,249
Total liabilities		<u>755,451</u>	<u>781,108</u>
NET ASSETS		<u>1,848,928</u>	<u>1,746,305</u>
CAPITAL AND RESERVES	22		
Share capital		1,180,000	1,180,000
Reserves		567,212	456,968
Total equity attributable to equity shareholders of the Company		1,747,212	1,636,968
Non-controlling interests	15	101,716	109,337
TOTAL EQUITY		<u>1,848,928</u>	<u>1,746,305</u>

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity
	Share capital	Capital reserve	Surplus reserve	General risk reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 22(c)	Note 22(d)(i)	Note 22(d)(ii)	Note 22(d)(iii)				
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 year ended 31 December 2020:								
Profit and total comprehensive income for the year	—	—	—	—	110,244	110,244	7,579	117,823
Appropriation to surplus reserve	—	—	1,885	—	(1,885)	—	—	—
Appropriation to general risk reserve	—	—	—	2,908	(2,908)	—	—	—
Dividends approved in respect of the previous year (Note 22(b))	—	—	—	—	—	—	(15,200)	(15,200)
Balance at 31 December 2020	1,180,000	980	45,933	61,635	458,664	1,747,212	101,716	1,848,928
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 year ended 31 December 2019:								
Profit and total comprehensive income for the year	—	—	—	—	131,587	131,587	9,201	140,788
Appropriation to surplus reserve	—	—	356	—	(356)	—	—	—
Reversal to general risk reserve	—	—	—	(22)	22	—	—	—
Dividends approved in respect of the previous year (Note 22(b))	—	—	—	—	(147,500)	(147,500)	—	(147,500)
Balance at 31 December 2019	1,180,000	980	44,048	58,727	353,213	1,636,968	109,337	1,746,305

The accompanying notes form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2020

(Expressed in RMB'000, unless otherwise stated)

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Operating activities			
Cash generated from operations	10(b)	199,262	152,437
PRC income tax paid	21(a)	<u>(50,422)</u>	<u>(59,762)</u>
Net cash generated from operating activities		<u>148,840</u>	<u>92,675</u>
Investing activities			
Proceeds from disposal of investments		3,506	2,516,928
Proceeds from disposal of fixed assets		—	196
Payment for the purchase of fixed assets and intangible assets		(6,029)	(8,587)
Payments on acquisition of investments		<u>(4,520)</u>	<u>(2,516,372)</u>
Net cash used in investing activities		<u>(7,043)</u>	<u>(7,835)</u>
Financing activities			
Proceeds from bank loans	10(c)	140,000	310,000
Proceeds from borrowings from third parties	10(c)	334,413	633,641
Proceeds from convertible notes	10(c)	—	73,939
Proceeds from borrowings from Euro zone	10(c)	128,811	58,389
Repayment of bank loans	10(c)	(150,000)	(340,000)
Repayment of borrowings from third parties	10(c)	(519,900)	(610,862)
Interest paid	10(c)	(41,089)	(38,311)
Capital element of lease rentals paid	10(c)	(2,746)	(2,606)
Interest element of lease rentals paid	10(c)	(278)	(194)
Dividends paid to equity shareholders of the Company		—	(148,752)
Dividends paid to non-controlling interests		<u>(8,036)</u>	<u>(6,400)</u>
Net cash used in financing activities		<u>(118,825)</u>	<u>(71,156)</u>
Net increase in cash and cash equivalents		22,972	13,684
Cash and cash equivalents at 1 January	10(a)	55,310	41,707
Effect of foreign exchange rate changes		<u>(53)</u>	<u>(81)</u>
Cash and cash equivalents at 31 December	10(a)	<u>78,229</u>	<u>55,310</u>

The accompanying notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for the financial assets measured at fair value through profit or loss (see Note 1(i)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 26.

(c) Changes in accounting policies

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

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 HKFRSs are discussed 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 for the year ended 31 December 2020, the amendments have no impact on the Group’s financial statements.

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 for the year ended 31 December 2020, the amendment has no impact on the Group’s financial statement.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests

that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(i)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(m)).

(e) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 1(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses (see Note 1(m)).

The cost of self-constructed items of fixed assets includes the cost of materials, direct labour and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Premises	20 years
Office and other equipment	5 years
Motor vehicles	5 years
Electronic equipment	5 years
Leasehold improvement	The shorter of the unexpired term of lease and 5 years
Right-of-use assets	Unexpired term of lease

Where parts of an item of fixed assets have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 1(m)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— computer software	5 years
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The period and method of amortisation are reviewed annually.

(h) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

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

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 1(f) and 1(m)):

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

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

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 1(h)(i), then the Group classifies the sub-lease as an operating lease.

(i) Financial instruments

(i) *Recognition and measurement of financial assets and liabilities*

A financial asset or financial liability is recognised in the statement of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those instruments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 23(e). These investments are subsequently accounted for as follows, depending on their classification.

On initial recognition, a financial asset is classified into one of the following measurement categories:

- amortised cost, if the financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method. (See Note 1(r)(i)).
- fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the financial asset comprise solely payments of principal and interest and the financial asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial asset is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the financial asset does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial asset (including interest) are recognised in profit or loss.

(ii) *Credit loss and impairment of financial assets*

The Group recognises a loss allowance for expected credit losses (ECLs) to financial assets measured at amortised cost (including cash and cash equivalents, loans and advances to customers and other receivables);

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

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

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

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

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For all financial instruments measured at amortised cost, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

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

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

- failure to make payments of principal or interest on their contractually due dates ;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 1(r)(i) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

(iii) *Fair value measurement principles*

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the

prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(iv) *Derecognition of financial assets and financial liabilities*

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

(v) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when, and only when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(j) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 1(t)).

(k) Convertible notes

(i) *Convertible notes that contain an equity component*

Convertible notes that can be converted into ordinary shares at the option of the holder, where the number of shares to be issued is fixed, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured at fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible notes as a whole and the initial fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the notes are converted or redeemed.

If the notes are converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the capital reserve is released directly to retained profits.

(ii) *Other convertible notes*

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host liability component. Transaction costs that relate to the issue of the convertible note are allocated to the host liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the host liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is recognised at fair value. At the end of each reporting period the fair value of derivative financial instruments is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged. The host liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the host liability component is calculated using the effective interest method.

If the notes are converted, the shares issued are measured at fair value and any difference between the fair value of shares issued and the carrying amounts of the derivative and liability components are recognised in profit or loss. If the notes are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 1(i)(ii).

(m) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets, including right-of-use assets;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(n) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when

determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Value-added-tax (“VAT”)

Output VAT is calculated on taxable revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period. The tax rate of VAT is 6%.

(q) Provisions and contingent liabilities

(i) *Provisions and contingent liabilities*

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) *Contingent liabilities assumed in business combinations*

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 1(q)(i). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 1(q)(i).

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) *Interest income*

Interest income is recognised as it accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 1(i)(ii)).

(ii) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a

systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(t) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest income arising from		
Loans and advances to customers	304,601	320,064
Cash at banks	<u>351</u>	<u>285</u>
	<u>304,952</u>	<u>320,349</u>
Interest and commission expenses arising from		
Borrowings from banks	(7,800)	(9,030)
Borrowings from non-bank institutions	(40,802)	(40,222)
Lease liabilities	(278)	(194)
Bank charges	<u>(98)</u>	<u>(107)</u>
	<u>(48,978)</u>	<u>(49,553)</u>
Net interest income	<u>255,974</u>	<u>270,796</u>

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 years ended 31 December 2020 and 2019. Details of concentration of credit risk are set out in Note 23(a).

For the years ended 31 December 2020 and 2019, 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 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.

3 OTHER NET INCOME

	2020 RMB'000	2019 RMB'000
Government grants (<i>Note</i>)	12,244	15,110
Investment (loss)/income	(4)	556
Exchange losses	(2,459)	(1,394)
Others	(2,100)	(100)
Total	7,681	14,172

Note: Government grants mainly represents the tax refund granted by local government.

4 IMPAIRMENT LOSSES

	2020 RMB'000	2019 RMB'000
Loans and advances to customers (<i>Note 11</i>)	43,992	34,252
Interest receivables	3,157	2,473
Goodwill (<i>Note 14</i>)	1,562	—
Other assets	122	—
Total	48,833	36,725

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	2020 RMB'000	2019 RMB'000
Salaries, bonuses and allowance	14,645	16,570
Contribution to retirement scheme	88	1,593
Social insurance and other benefits	3,708	4,740
Total	18,441	22,903

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 year. 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

	2020 RMB'000	2019 RMB'000
Depreciation expenses (<i>Note 16</i>)		
— owned fixed assets	5,141	5,219
— right-of-used assets	2,126	2,001
Amortization of intangible assets	617	1,388
Operating lease charges	30	43
Auditors' remuneration		
— audit services	3,086	3,049
— other services	80	94

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2020 RMB'000	2019 RMB'000
Current tax (<i>Note 21(a)</i>)		
Provision for PRC income tax for the year	55,251	57,254
Deferred tax (<i>Note 21(b)</i>)		
Origination and reversal of temporary differences	(11,002)	(9,560)
Total	<u>44,249</u>	<u>47,694</u>

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2020 RMB'000	2019 RMB'000
Profit before taxation	<u>162,072</u>	<u>188,482</u>
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (<i>Notes</i>)	40,518	47,121
Under-provision in respect of prior years	2,392	—
Effect of non-deductible expenses	<u>1,339</u>	<u>573</u>
Actual income tax expense	<u>44,249</u>	<u>47,694</u>

Notes:

- (i) The Company and the subsidiaries of the Group incorporated in the PRC are subject to PRC income tax at the statutory tax rate of 25% for the year ended 31 December 2020 (2019: 25%).
- (ii) No provision for Hong Kong Profits Tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2020 (2019: nil).

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2020				
	Director's Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Pension scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Chairman					
Yu Yin (俞寅)	6	521	2	130	659
Executive directors					
Zheng Xuegen (鄭學根)	6	356	2	130	494
Yang Sheng (楊晟)	6	519	2	130	657
Hu Fangfang (胡芳芳)	6	347	2	110	465
Non-executive director					
Pan Zhongmin (潘忠敏)	6	—	—	—	6
Independent non-executive directors					
Chan Kin Man (陳健民) (appointed on 29 June 2020)	63	—	—	—	63
Zhao Xuqiang (趙旭強) (appointed on 29 June 2020)	50	—	—	—	50
Yang Jie (楊婕) (appointed on 29 June 2020)	50	—	—	—	50
Ho Yuk Ming, Hugo (何育明) (resigned on 29 June 2020)	50	—	—	—	50
Jin Xuejun (金雪軍) (resigned on 29 June 2020)	50	—	—	—	50
Huang Lianxi (黃廉熙) (resigned on 29 June 2020)	50	—	—	—	50
Supervisors					
Wang Peijun (王培軍)	6	—	—	—	6
Wang Suliang (王蘇良) (appointed on 29 June 2020)	3	138	—	60	201
Zhou Mingwan (周明萬) (appointed on 29 June 2020)	3	—	—	—	3
Dai Shengqing (戴勝慶) (resigned on 29 June 2020)	3	—	—	—	3
Yang Zhenlan (楊振嵐) (resigned on 29 June 2020)	3	33	—	2	38
	361	1,914	8	562	2,845

	2019				
	Director's fees <i>RMB'000</i>	Salaries, allowances and other benefits in kind <i>RMB'000</i>	Pension scheme <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Total <i>RMB'000</i>
Chairman					
Yu Yin (俞寅)	6	412	20	140	578
Executive directors					
Zheng Xuegen (鄭學根)	6	342	19	140	507
Yang Sheng (楊晟)	6	372	19	140	537
Hu Haifeng (胡海峰)					
(resigned on 18 April 2019)	3	—	—	—	3
Hu Fangfang (胡芳芳)					
(appointed on 28 June 2019)	3	167	10	55	235
Non-executive director					
Pan Zhongmin (潘忠敏)	6	—	—	—	6
Independent non-executive directors					
Ho Yuk Ming, Hugo (何育明)	100	—	—	—	100
Jin Xuejun (金雪軍)	100	—	—	—	100
Huang Lianxi (黃廉熙)	100	—	—	—	100
Supervisors					
Dai Shengqing (戴勝慶)	6	—	—	—	6
Wang Peijun (王培軍)	6	—	—	—	6
Yang Zhenlan (楊振嵐)	6	71	5	4	86
	<u>348</u>	<u>1,364</u>	<u>73</u>	<u>479</u>	<u>2,264</u>

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2019: four) are directors or supervisors of the Group for the year ended 31 December 2020, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other individual are as follow:

	2020 RMB'000	2019 RMB'000
Salaries and other emoluments	337	326
Discretionary bonuses	110	110
Pension scheme	<u>2</u>	<u>19</u>
	<u>449</u>	<u>455</u>

The emoluments of the one (2019: one) individual with the highest emoluments are within the following bands:

	2020 Number of individuals	2019 Number of individuals
<i>Hong Kong dollar</i>		
Nil — 1,000,000	1	1
1,000,001 — 1,500,000	<u>—</u>	<u>—</u>

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2020 and 2019.

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average of ordinary shares in issue during the year as follows:

	2020	2019
Profit attributable to the equity shareholders of the Company (RMB'000)	110,244	131,587
Weighted average number of ordinary shares in issue ('000)	<u>1,180,000</u>	<u>1,180,000</u>
Basic earnings per share (RMB)	<u>0.09</u>	<u>0.11</u>

(a) **Weighted average number of ordinary shares**

	2020 '000	2019 '000
Issued ordinary shares at 1 January	<u>1,180,000</u>	<u>1,180,000</u>
Weighted average number of ordinary shares at 31 December	<u><u>1,180,000</u></u>	<u><u>1,180,000</u></u>

There were no dilutive potential ordinary shares during the years ended 31 December 2020 and 2019, and therefore, diluted earnings per share are the same as the basic earnings per share.

10 CASH AND CASH EQUIVALENTS

(a) **Cash and cash equivalents comprise:**

	31 December 2020 RMB'000	31 December 2019 RMB'000
Cash in hand	3	2
Cash at banks	77,498	54,906
Others	<u>728</u>	<u>402</u>
Cash and cash equivalents in the cash flow statement	<u><u>78,229</u></u>	<u><u>55,310</u></u>

(b) **Reconciliation of profit before taxation to cash generated from operating activities:**

	2020 RMB'000	2019 RMB'000
Profit before taxation	162,072	188,482
Adjustment for:		
Impairment losses	48,833	36,725
Depreciation and amortisation	7,884	8,608
Exchange losses	2,459	1,394
Interest expenses	48,880	49,446
Investment loss/(income)	4	(556)
Net gains on disposal of fixed assets	—	(3)
Changes in working capital:		
Increase in loans and advances to customers	(79,527)	(116,749)
(Increase)/decrease in interest receivables and other assets	(5,116)	2,310
Increase/(decrease) in accruals and other payables	<u>13,773</u>	<u>(17,220)</u>
Cash generated from operations	<u><u>199,262</u></u>	<u><u>152,437</u></u>

(c) **Reconciliation of liabilities arising from financing activities:**

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans <i>RMB'000</i>	Other borrowings from third parties <i>RMB'000</i>	Convertible notes <i>RMB'000</i>	Borrowings from Euro zone <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2020	150,239	432,219	74,883	58,631	1,274	717,246
Changes from financing cash flow						
Proceeds from bank loans	140,000	—	—	—	—	140,000
Repayment of bank loans	(150,000)	—	—	—	—	(150,000)
Proceeds from borrowings from third parties	—	334,413	—	—	—	334,413
Repayment of borrowings from third parties	—	(519,900)	—	—	—	(519,900)
Proceeds from borrowings from Euro zone	—	—	—	128,811	—	128,811
Capital element of lease rentals paid	—	—	—	—	(2,746)	(2,746)
Interest element of lease rentals paid	—	—	—	—	(278)	(278)
Interest paid	(7,847)	(24,575)	(5,615)	(3,052)	—	(41,089)
Total changes from financing cash flows	(17,847)	(210,062)	(5,615)	125,759	(3,024)	(110,789)
Exchange adjustments	—	—	—	2,406	—	2,406
Other changes:						
Interest expense (<i>Note 2</i>)	7,800	28,377	8,519	3,906	278	48,880
Commission payables related to obtaining other borrowings	—	(1,343)	—	(1,675)	—	(3,018)
Value-added tax	—	—	—	—	250	250
Increase in lease liabilities from entering into new leases during the year	—	—	—	—	8,081	8,081
Total other changes	7,800	27,034	8,519	2,231	8,609	54,193
At 31 December 2020	140,192	249,191	77,787	189,027	6,859	663,056

	Bank loans <i>RMB'000</i>	Other borrowings from third parties <i>RMB'000</i>	Convertible notes <i>RMB'000</i>	Borrowings from Euro zone <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019	180,299	399,780	—	—	3,638	583,717
Changes from financing cash flow						
Proceeds from bank loans	310,000	—	—	—	—	310,000
Repayment of bank loans	(340,000)	—	—	—	—	(340,000)
Proceeds from borrowings from third parties	—	633,641	—	—	—	633,641
Repayment of borrowings from third parties	—	(610,862)	—	—	—	(610,862)
Proceeds from convertible notes	—	—	73,939	—	—	73,939
Proceeds from borrowings from Euro zone	—	—	—	58,389	—	58,389
Capital element of lease rentals paid	—	—	—	—	(2,606)	(2,606)
Interest element of lease rentals paid	—	—	—	—	(194)	(194)
Interest paid	<u>(9,090)</u>	<u>(29,221)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(38,311)</u>
Total changes from financing cash flows	<u>(39,090)</u>	<u>(6,442)</u>	<u>73,939</u>	<u>58,389</u>	<u>(2,800)</u>	<u>83,996</u>
Exchange adjustments	—	—	—	61	—	61
Other changes:						
Interest expense (<i>Note 2</i>)	9,030	39,097	944	181	194	49,446
Commission payables related to obtaining other borrowings	—	(216)	—	—	—	(216)
Value-added tax	—	—	—	—	242	242
Total other changes	<u>9,030</u>	<u>38,881</u>	<u>944</u>	<u>181</u>	<u>436</u>	<u>49,472</u>
At 31 December 2019	<u>150,239</u>	<u>432,219</u>	<u>74,883</u>	<u>58,631</u>	<u>1,274</u>	<u>717,246</u>

(d) Total cash outflow for leases:

Amounts included in the cash flow statement for leases comprise the following:

	2020 RMB'000	2019 RMB'000
Within operating cash flows	30	8
Within financing cash flows	<u>3,024</u>	<u>2,800</u>
Cash flows of rentals paid on leases	<u><u>3,054</u></u>	<u><u>2,808</u></u>

These amounts relate to the following:

	2020 RMB'000	2019 RMB'000
Lease rentals paid	3,054	2,808

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2020 RMB'000	31 December 2019 RMB'000
Corporate loans	994,721	878,370
Retail loans	1,535,190	1,566,901
Micro-loans granted online	<u>27,758</u>	<u>37,442</u>
Sub-total	<u><u>2,557,669</u></u>	<u><u>2,482,713</u></u>
Accrued interest	<u>29,982</u>	<u>37,327</u>
Gross loans and advances to customers	<u><u>2,587,651</u></u>	<u><u>2,520,040</u></u>
Less: Allowances for impairment losses	<u><u>(187,537)</u></u>	<u><u>(155,461)</u></u>
Net loans and advances to customers	<u><u>2,400,114</u></u>	<u><u>2,364,579</u></u>

(b) Analysed by type of collateral

	31 December 2020 RMB'000	31 December 2019 RMB'000
Unsecured loans	32,154	29,575
Guaranteed loans	2,495,163	2,401,778
Collateralized loans	22,352	43,360
Pledged loans	8,000	8,000
Sub-total	2,557,669	2,482,713
Accrued interest	29,982	37,327
Gross loans and advances to customers	2,587,651	2,520,040
Less: Allowances for impairment losses	(187,537)	(155,461)
Net loans and advances to customers	2,400,114	2,364,579

(c) Analysed by industry sector

	31 December 2020		31 December 2019	
	RMB'000	%	RMB'000	%
Wholesale and retail	496,300	19%	478,850	18%
Manufacturing	64,200	3%	95,600	4%
Construction	125,200	5%	94,900	4%
Agriculture, forestry, animal husbandry and fishery	22,500	1%	15,300	1%
Others	286,521	11%	193,720	8%
Corporate loans	994,721	39%	878,370	35%
Retail loans	1,535,190	60%	1,566,901	63%
Micro-loans granted online	27,758	1%	37,442	2%
Sub-total	2,557,669	100%	2,482,713	100%
Accrued interest	29,982		37,327	
Gross loans and advances to customers	2,587,651		2,520,040	
Less: Allowances for impairment losses	(187,537)		(155,461)	
Net loans and advances to customers	2,400,114		2,364,579	

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

31 December 2020				
	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>
Unsecured loans	310	213	269	12,052
Guaranteed loans	50,500	12,919	19,265	8,002
Collateralized loans	4,190	—	1,800	14,012
Total	55,000	13,132	21,334	34,066
31 December 2019				
	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>
Unsecured loans	377	377	1,192	16,226
Guaranteed loans	9,349	818	4,574	20,180
Collateralized loans	6,500	—	—	11,445
Total	16,226	1,195	5,766	47,851

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

31 December 2020			
	12-month ECLs <i>RMB'000</i>	Lifetime ECLs non credit- impaired <i>RMB'000</i>	Lifetime ECLs credit- impaired <i>RMB'000</i>
			Total <i>RMB'000</i>
Gross loans and advances to customers	2,416,654	47,774	123,223
Less: Allowances for impairment losses	(59,336)	(18,134)	(110,067)
Net loans and advances to customers	2,357,318	29,640	13,156

	31 December 2019			Total RMB'000
	12-month ECLs RMB'000	Lifetime ECLs non credit- impaired RMB'000	Lifetime ECLs credit- impaired RMB'000	
Gross loans and advances to customers	2,412,683	158	107,199	2,520,040
Less: Allowances for impairment losses	<u>(65,718)</u>	<u>(51)</u>	<u>(89,692)</u>	<u>(155,461)</u>
Net loans and advances to customers	<u>2,346,965</u>	<u>107</u>	<u>17,507</u>	<u>2,364,579</u>

(f) **Movements of allowances for impairment losses**

	2020			Total RMB'000
	12-month ECLs RMB'000	Lifetime ECLs non credit- impaired RMB'000	Lifetime ECLs credit- impaired RMB'000	
At 1 January 2020	65,718	51	89,692	155,461
Transferred to				
— Lifetime ECLs non credit-impaired	(220)	220	—	—
— Lifetime ECLs credit-impaired	(2,175)	(44)	2,219	—
(Reversal)/charge for the year	(3,987)	17,907	30,072	43,992
Write off	—	—	(12,689)	(12,689)
Recoveries of loans and advances written off in previous years	<u>—</u>	<u>—</u>	<u>773</u>	<u>773</u>
At 31 December 2020	<u>59,336</u>	<u>18,134</u>	<u>110,067</u>	<u>187,537</u>

	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 year	(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	<u>65,718</u>	<u>51</u>	<u>89,692</u>	<u>155,461</u>

(g) **Analysed by credit quality**

	2020 RMB'000
Gross balance of loans and advances to customers that are assessed for 12-month ECLs	
— Neither overdue nor credit-impaired	<u>2,416,654</u>
Sub-total	<u>2,416,654</u>
Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired	
— Overdue but not credit-impaired	309
— Neither overdue nor credit-impaired	<u>47,465</u>
Sub-total	<u>47,774</u>
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired	
— Overdue and credit-impaired	<u>123,223</u>
Sub-total	<u>123,223</u>
Less: Allowances for impairment losses	<u>(187,537)</u>
Net value	<u>2,400,114</u>

2019
RMB'000

Gross balance of loans and advances to customers that are assessed for 12-month ECLs	
— Neither overdue nor credit-impaired	<u>2,412,683</u>
Sub-total	<u>2,412,683</u>
Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired	
— Overdue but not credit-impaired	153
— Neither overdue nor credit-impaired	<u>5</u>
Sub-total	<u>158</u>
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired	
— Overdue and credit-impaired	70,885
— Not overdue but credit-impaired	<u>36,314</u>
Sub-total	<u>107,199</u>
Less: Allowances for impairment losses	<u>(155,461)</u>
Net value	<u><u>2,364,579</u></u>

12 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Units in hybrid fund (<i>Note (i)</i>)	1,000	—
Wealth management product (<i>Note (ii)</i>)	<u>10</u>	<u>—</u>
	<u><u>1,010</u></u>	<u><u>—</u></u>

Notes:

- (i) The hybrid fund was issued by an asset management company in the PRC, which was an unlisted investment.
- (ii) Wealth management product was issued by a bank in the PRC, which was an unlisted investment.

13 INTANGIBLE ASSETS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Computer software	<u>1,136</u>	<u>1,753</u>

14 GOODWILL

RMB'000

Cost:

At 1 January and 31 December 2020 22,502

Accumulated impairment losses:

At 1 January 2020 —
 Impairment loss (1,562)

At 31 December 2020 (1,562)

Carrying amount:

At 31 December 2020 20,940

At 31 December 2019 22,502

Goodwill is allocated to the Group's cash-generating units identified according to the micro-finance operations acquired as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance")	18,005	18,005
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")	<u>2,935</u>	<u>4,497</u>
	<u><u>20,940</u></u>	<u><u>22,502</u></u>

The Group acquired 96.9298% equity interest in Jinhui Micro-finance for a total consideration of RMB238.5 million on 1 July 2015. The excess of the acquisition costs over the share of net fair value of Jinhui Micro-finance's identifiable net assets of RMB18.0 million was recorded as goodwill and allocated to the micro-finance operation of Jinhui Micro-finance.

The Group acquired 60% equity interest in Xingyao Micro-finance for a total consideration of RMB130.0 million on 18 November 2016. The excess of the acquisition costs over the share of net fair value of Xingyao Micro-finance's identifiable net assets of RMB4.5 million was recorded as goodwill and allocated to the micro-finance operation of Xingyao Micro-finance.

Impairment test

The recoverable amount of the acquired subsidiaries is greater of its fair value less costs of disposal and value in use. For Jinhui Micro-finance and Xingyao Micro-finance, value-in-use is greater than the fair value less costs of disposal. In assessing value in use, the calculations of the acquired subsidiaries are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond five-year period of Jinhui Micro-finance and Xingyao Micro-finance are extrapolated using an estimated weighted average growth rate of 2.8% and 2.2% respectively, which is consistent with each company's development strategy and the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for micro-finance operations in the past. The cash flows are discounted using discount rates of 11.07% and 11.83% by Jinhui Micro-finance and Xingyao Micro-finance respectively at 31 December 2020 (2019: Jinhui Micro-finance: 11.34%; Xingyao Micro-finance: 10.99%). The discounted rates are pre-tax and reflect specific risks relating to the acquired subsidiaries.

The impairment loss of RMB1.6 million recognised in "Impairment losses" during the year solely relates to Xingyao Micro-finance's operation (the cash-generate unit, the "CGU"). As the "CGU" has been reduced to its recoverable amount of RMB136.5 million which is determined by value-in-use approach, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

15 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 31 December 2020 and 31 December 2019		
			Group's effective interest	Held by the Company	Principal activities
Jinhui Micro-finance (<i>Note (i)</i>)	Deqing, Zhejiang	1,228,000,000	99.43%	99.43%	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") (<i>Note (ii)</i>)	Hong Kong	—	100.00%	100.00%	Investment, trading
Xingyao Micro-finance	Hangzhou, Zhejiang	200,000,000	60%	60%	Micro-finance

Notes:

- (i) Pursuant to the assets restructuring agreement and the capital injection agreement entered into by the Company and Jinhui Micro-finance dated 14 November 2017, the Company has injected capital of RMB1,000,000,000 in the form of transferring assets and liabilities into Jinhui Micro-finance on 25 February 2018 after obtaining approvals from relevant authorities in the PRC. Upon the completion of the aforementioned capital injection, the Company held equity interest in Jinhui Micro-finance increased from approximately 96.93% to 99.43%. The difference between the capital injection and the carrying amount of the 2.5% equity interest in Jinhui Micro-finance amounted to RMB980 thousand was recorded as capital reserve on the consolidated statement of financial position.
- (ii) On 18 August 2015 (date of incorporation), Zuoli HK's 1,000,000 shares with par value of HK\$1 was allotted and issued to its sole shareholder, the Company. As at 31 December 2020, the issued shares had not been paid by the Company.

The following tables lists out the information relating to Xingyao Micro-finance which has a material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2020 RMB'000	2019 <i>RMB'000</i>
NCI Percentage	40%	40%
Total assets	244,414	259,317
Total liabilities	(12,630)	(6,972)
Net assets	231,784	252,345
Carrying amount of NCI	92,714	100,938
Net interest income	33,935	33,067
Profit and total comprehensive income for the year	17,439	21,348
Profit allocated to NCI	6,976	8,539
Net cash generated from operating activities	26,393	70,391
Net cash generated from/(used in) investing activities	36,486	(34,184)
Net cash used in financing activities	(31,229)	(20,222)

16 FIXED ASSETS

(a) Reconciliation of carrying amount

	Premises <i>RMB'000</i>	Right-of-use assets <i>RMB'000</i>	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 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	5,977	8,081	—	—	27	25	14,110
Retirement	—	(3,005)	—	—	—	—	(3,005)
At 31 December 2020	21,084	8,081	3,943	5,086	1,877	35,882	75,953
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	(493)	(2,126)	(583)	(853)	(244)	(2,968)	(7,267)
Retirement	—	3,005	—	—	—	—	3,005
At 31 December 2020	(1,521)	(1,122)	(2,445)	(3,958)	(1,674)	(14,345)	(25,065)
Net book value:							
At 31 December 2020	19,563	6,959	1,498	1,128	203	21,537	50,888
At 31 December 2019	14,079	1,004	2,081	1,981	420	24,480	44,045

(b) Right-of-use assets

	At 31 December 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Premises leased for own use, carried at depreciated cost	6,959	1,004

17 OTHER ASSETS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Prepayment	687	1,173
Others	<u>1,442</u>	<u>25</u>
	<u>2,129</u>	<u>1,198</u>

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

18 INTEREST-BEARING BORROWINGS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Bank loans (<i>Note (i)</i>)		
— Amortised cost	140,000	150,000
— Accrued interest	<u>192</u>	<u>239</u>
	<u>140,192</u>	<u>150,239</u>
Borrowings from third parties (<i>Note (ii)</i>)		
— Amortised cost	245,468	425,381
— Accrued interest	<u>3,723</u>	<u>6,838</u>
	<u>249,191</u>	<u>432,219</u>
Convertible notes (<i>Note (iii)</i>)		
— Amortised cost	77,143	74,239
— Accrued interest	<u>644</u>	<u>644</u>
	<u>77,787</u>	<u>74,883</u>
Borrowings from Euro zone — unsecured (<i>Note (iv)</i>)		
— Amortised cost	188,803	58,476
— Accrued interest	<u>224</u>	<u>155</u>
	<u>189,027</u>	<u>58,631</u>
Total	<u>656,197</u>	<u>715,972</u>

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 31 December 2020 and 31 December 2019, none of the covenants relating to the bank loans had been breached.
- (ii) In 2020, the Group obtained financings with nominal amount totaling RMB339.9 million at an interest rate ranging from 5.10% to 6.50% per annum by issuing financing products on trading platforms located in the PRC which are due from October 2020 to November 2021. As at 31 December 2020, the remaining balance of these financial products was RMB249.2 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 6.80% to 7.20% 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 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 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. On 30 October and 16 December 2020, the Group obtained financings with nominal amount totaling EUR7.0 million at an interest rate 4.38% per annum from the same institution which are due on 11 December and 16 December 2022 respectively. On 16 December 2020, the Group obtained financing with nominal amount totaling CNH76.1 million at an interest rate 6.30% per annum from the same institution which is due on 22 May 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.

19 LEASE LIABILITIES

	At 31 December 2020		At 31 December 2019	
	Present value of the minimum lease payments <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>	Present value of the minimum lease payments <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>
Within 1 year	<u>2,911</u>	<u>2,980</u>	<u>1,274</u>	<u>1,284</u>
After 1 year but within 2 years	2,685	2,979	—	—
After 2 years but within 5 years	<u>1,263</u>	<u>1,490</u>	<u>—</u>	<u>—</u>
	<u>6,859</u>	<u>7,449</u>	<u>1,274</u>	<u>1,284</u>
Less: total future interest expenses		<u>(590)</u>		<u>(10)</u>
Present value of lease liabilities		<u>6,859</u>		<u>1,274</u>

20 ACCRUALS AND OTHER PAYABLES

	31 December 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Accrued staff costs	4,382	5,788
Value-added tax payable	1,655	1,933
Tax and surcharges and other taxation payable	439	117
Dividend payable to non-controlling interests	7,164	—
Other payables	<u>32,677</u>	<u>14,775</u>
	<u>46,317</u>	<u>22,613</u>

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements in current taxation in the consolidated statement of financial position are as follows:

	31 December 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Balance of income tax payable at the beginning of the year	41,249	43,757
Provision for PRC income tax for the year (<i>Note 6(a)</i>)	55,251	57,254
Income tax paid during the year	<u>(50,422)</u>	<u>(59,762)</u>
Balance of income tax payable at the end of the year	<u>46,078</u>	<u>41,249</u>

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the years ended 31 December 2019 and 2020 are as follows:

Deferred tax assets arising from:	Provision for impairment losses RMB'000	Accrued expenses RMB'000	Tax deductible losses RMB'000	Total RMB'000
At 1 January 2019	27,302	1,081	—	28,383
Charged to profit or loss (Note 6(a))	<u>10,268</u>	<u>(708)</u>	<u>—</u>	<u>9,560</u>
At 31 December 2019 and 1 January 2020	37,570	373	—	37,943
Charged to profit or loss (Note 6(a))	<u>9,886</u>	<u>(28)</u>	<u>1,144</u>	<u>11,002</u>
At 31 December 2020	<u><u>47,456</u></u>	<u><u>345</u></u>	<u><u>1,144</u></u>	<u><u>48,945</u></u>

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 Note 22(c)	Surplus reserve RMB'000 Note 22(d)(ii)	General risk reserve RMB'000 Note 22(d)(iii)	Retained profits RMB'000	Total RMB'000
Balance at 31 December 2019 and 1 January 2020	<u>1,180,000</u>	<u>44,048</u>	<u>21,786</u>	<u>123,634</u>	<u>1,369,468</u>
Changes in equity for 2020:					
Total comprehensive income for the year	—	—	—	18,854	18,854
Appropriation to surplus reserve	—	1,885	—	(1,885)	—
Appropriation to general risk reserve	<u>—</u>	<u>—</u>	<u>1,814</u>	<u>(1,814)</u>	<u>—</u>
Balance at 31 December 2020	<u><u>1,180,000</u></u>	<u><u>45,933</u></u>	<u><u>23,600</u></u>	<u><u>138,789</u></u>	<u><u>1,388,322</u></u>

	Share capital <i>RMB'000</i> <i>Note 22(c)</i>	Surplus reserve <i>RMB'000</i> <i>Note 22(d)(ii)</i>	General risk reserve <i>RMB'000</i> <i>Note 22(d)(iii)</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 31 December 2018 and 1 January 2019	-----1,180,000	-----43,692	-----24,067	-----265,649	-----1,513,408
Changes in equity for 2019:					
Total comprehensive income for the year	—	—	—	3,560	3,560
Appropriation to surplus reserve	—	356	—	(356)	—
Reversal to general risk reserve	—	—	(2,281)	2,281	—
Dividends approved in respect of the previous year (<i>Note 22(b)</i>)	-----—	-----—	-----—	----- (147,500)	----- (147,500)
Balance at 31 December 2019	<u>1,180,000</u>	<u>44,048</u>	<u>21,786</u>	<u>123,634</u>	<u>1,369,468</u>

(b) Dividends

As of 31 December 2020, the Company did not declare a final dividend for the year of 2019.

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

(c) Share capital

As at 31 December 2020, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1 each.

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve represents the increase of equity interest in Jinhui Micro-finance arising from the capital injection. For details, please see Note 15.

(ii) Surplus reserve

The surplus reserve represents statutory surplus reserve fund. The Group 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 Group 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 and its subsidiaries in the PRC engaged in micro-finance business are required to set aside a general risk 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.

(e) Appropriation of profits

- (i) In accordance with the resolution of the Company's board of directors meeting on 19 March 2021, the proposed profit appropriations for the year ended 31 December 2020 are as follows:

- Appropriate RMB1.9 million (10% of the net profit of the Company) to surplus reserve;
- Appropriate RMB1.8 million from retained profits to general risk reserve.

The profit appropriation resolution mentioned above has yet to be approved by the Company's shareholders.

- (ii) At the Annual General Meeting of shareholders held on 29 June 2020, the shareholders approved the following profit appropriations for the year ended 31 December 2019:

- Appropriate RMB0.4 million (10% of the net profit of the Company) to surplus reserve;
- Reverse RMB2.3 million from general risk reserve to retained profits.

(f) Distributable reserves

At 31 December 2019 and 31 December 2020, the aggregate amounts of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Company Law of the PRC, were RMB123.6 million and RMB138.8 million respectively.

(g) 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 commensurate 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 shareholders returns that might be possible with higher levels of borrowings and the advantages and stability resulted from 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 years ended 31 December 2019 and 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.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practice used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations or commitment to the Group provided. It arises primarily from the Group's micro-finance business and treasury business such as investment in wealth management products.

Credit risk arising from micro-finance business

The Group's credit risk mainly arises from micro-finance business. The Group has established relevant mechanism to cover credit risk in key operational phases of micro-finance business, including pre-lending evaluations, credit approval, and post-lending monitoring. The Group conducts customer acceptance and due diligence by business and marketing department and risk management department in pre-lending evaluations. In the credit approval phase, all loan applications are subject to the assessment and approval of the Group's deputy general manager, general manager or loan assessment committee, depending on the amount of the loans. During the post-lending monitoring, the Group conducts on-site inspections and off-site inquiries to detect potential risks by evaluating various aspects, including but not limited to the customers' operational and financial conditions, status of collaterals and other sources of repayment.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss of the loan portfolio is assessed collectively or individually as appropriate.

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

Stage 1

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

Stage 2

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

Stage 3

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

The Group applies the 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 31 December 2020, 1.55% (31 December 2019: 1.99%) and 6.61% (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 11.

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:

	31 December 2020					
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	78,229	—	—	—	78,229	78,229
Interest receivables	988	—	—	—	988	988
Loans and advances to customers	132,032	492,494	2,134,753	417	2,759,696	2,400,114
Financial assets measured at fair value through profit or loss	10	1,000	—	—	1,010	1,010
Other assets	<u>1,442</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,442</u>	<u>1,442</u>
Total	<u>212,701</u>	<u>493,494</u>	<u>2,134,753</u>	<u>417</u>	<u>2,841,365</u>	<u>2,481,783</u>
Liabilities						
Interest-bearing borrowings	—	(1,545)	(501,865)	(201,379)	(704,789)	(656,197)
Lease liabilities	—	(1,490)	(1,490)	(4,469)	(7,449)	(6,859)
Accruals and other payables	<u>(39,841)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(39,841)</u>	<u>(39,841)</u>
Total	<u>(39,841)</u>	<u>(3,035)</u>	<u>(503,355)</u>	<u>(205,848)</u>	<u>(752,079)</u>	<u>(702,897)</u>
	<u>172,860</u>	<u>490,459</u>	<u>1,631,398</u>	<u>(205,431)</u>	<u>2,089,286</u>	<u>1,778,886</u>

31 December 2019

	Overdue/ Repayment on demand <i>RMB'000</i>	Within three months <i>RMB'000</i>	Between three months and one year <i>RMB'000</i>	Between one year and five years <i>RMB'000</i>	Total <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
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	<u>25</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25</u>	<u>25</u>
Total	<u>126,456</u>	<u>613,784</u>	<u>2,041,654</u>	<u>13,074</u>	<u>2,794,968</u>	<u>2,419,997</u>
Liabilities						
Interest-bearing borrowings	—	(56,572)	(553,077)	(151,401)	(761,050)	(715,972)
Lease liabilities	—	(1,400)	—	—	(1,400)	(1,274)
Accruals and other payables	<u>(14,775)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(14,775)</u>	<u>(14,775)</u>
Total	<u>(14,775)</u>	<u>(57,972)</u>	<u>(553,077)</u>	<u>(151,401)</u>	<u>(777,225)</u>	<u>(732,021)</u>
	<u>111,681</u>	<u>555,812</u>	<u>1,488,577</u>	<u>(138,327)</u>	<u>2,017,743</u>	<u>1,687,976</u>

(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:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Fixed interest rate		
Financial assets		
— Loans and advances to customers	2,400,114	2,364,579
Financial liabilities		
— Interest-bearing borrowings	(656,197)	(715,972)
— Lease liabilities	(6,859)	(1,274)
Net	<u>1,737,058</u>	<u>1,647,333</u>
Variable interest rate		
Financial assets		
— Cash and cash equivalent	77,498	54,906
Net	<u>77,498</u>	<u>54,906</u>
Net fixed rate borrowings as a percentage of total borrowings	<u>100.00%</u>	<u>100.00%</u>

(ii) Sensitivity analysis

At 31 December 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 RMB291,000 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 year end date.

	Exposure to foreign currencies	
	2020	2019
	Euros	Euros
	RMB'000	RMB'000
Cash and cash equivalents	1	1,954
Interest-bearing borrowings	(118,447)	(58,631)
	<u>(118,446)</u>	<u>(56,677)</u>

(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.

	2020		2019	
	Increase/ (decrease) in foreign exchange rates bps	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates bps	Effect on profit after tax and retained profits RMB'000
Euros	100	(888)	100	(425)
	(100)	888	(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 31 December 2020			Total
	Level 1	Level 2	Level 3	
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss				
Units in hybrid fund	—	1,000	—	1,000
Wealth management products	<u>—</u>	<u>10</u>	<u>—</u>	<u>10</u>

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 the hybrid fund is based on the net asset value published by the asset management company and the net asset value is observable.

The fair value of wealth management products is determined with reference to the forecasted yield published by the issuing bank as at the end of the reporting period and period that the Group has held such wealth management products.

(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 31 December 2020.

24 COMMITMENTS

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

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	2020 RMB'000	2019 RMB'000
Key management personnel remuneration (<i>Note (i)</i>)	3,044	2,492
Receiving guarantees for bank loans (<i>Note (ii)</i>)	140,000	310,000
Receiving guarantees for borrowing from third parties(<i>Note (iii)</i>)	339,870	643,478
Receiving guarantees for convertible notes (<i>Note (iv)</i>)	—	80,000
Releasing guarantees for bank loans (<i>Note (ii)</i>)	(150,000)	(340,000)
Releasing guarantees for borrowing from third parties (<i>Note (iii)</i>)	(519,900)	(610,862)

Notes:

- (i) Remuneration of key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in Note 7 and certain of the highest payment employs as disclosed in Note 8. Total remuneration is included in "Staff cost" (see Note 5(a)).
- (ii) The guarantees for bank loans during the year ended 31 December 2020 were provided by the Chairman of the Board without charges. For the details of bank loans, please refer to Note 18(i).
- (iii) The guarantees for borrowings from third parties during the year ended 31 December 2020 were provided by the Chairman of the Board without charges. For the details of other borrowings from third parties, please refer to Note 18(ii).
- (iv) The guarantees for convertible notes during the year ended 31 December 2020 were provided by the Chairman of the Board without charges. For the details of convertible notes, please refer to Note 18(iii).

(b) Balances with key management personnel

	31 December 2020 RMB'000	31 December 2019 RMB'000
Guarantees received for borrowing from third parties	249,410	429,440
Guarantees received for bank loans	140,000	150,000
Guarantees received for convertible notes	80,000	80,000

(c) Other related party transactions

	2020 RMB'000	2019 RMB'000
Administrative expenses (<i>Note (i)</i>)	987	—
Depreciation expense of right-of-use assets (<i>Note (ii)</i>)	2,126	2,001
Interest expense of lease liabilities (<i>Note (ii)</i>)	278	194
Receiving guarantees for bank loans (<i>Note (iii)</i>)	140,000	310,000
Receiving guarantees for borrowing from third parties (<i>Note (iv)</i>)	339,870	643,478
Receiving guarantees for convertible notes (<i>Note (v)</i>)	—	80,000
Releasing guarantees for bank loans (<i>Notes (iii)</i>)	(150,000)	(340,000)
Releasing guarantees for borrowing from third parties (<i>Note (iv)</i>)	(519,900)	(610,862)

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 Group for a term of 3 years commencing from 7 July 2017 and ending on 6 July 2020.
- On 7 July 2020, the Company and Zuoli Holdings Group Company Limited entered into a new lease agreement, pursuant to which Zuoli Holdings Group Company Limited agreed to lease a property to the Group for a term of 3 years commencing from 7 July 2020 and ending on 6 July 2023.
- (iii) The guarantees for bank loans during the year ended 31 December 2020 were provided by other related parties of the Group without charges. For the details of bank loans, please refer to Note 18(i).
- (iv) The guarantees for borrowings from third parties during the year ended 31 December 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 18(ii).
- (v) The guarantees for convertible notes during the year ended 31 December 2020 were provided by other related parties of the Group without charges. For the details of convertible notes, please refer to Note 18(iii).

(d) Balances with other related parties

	31 December 2020 RMB'000	31 December 2019 RMB'000
Lease liabilities	6,859	1,274
Guarantees received for bank loans	140,000	150,000
Guarantees received for borrowing from third parties	249,410	429,440
Guarantees received for convertible notes	80,000	80,000

26 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, the key sources of estimation uncertainty are as follows:

(a) Impairment of financial assets measured at amortised cost

The Group reviews portfolios of financial assets measured at amortised cost to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for financial assets measured at amortised cost. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for financial assets measured at amortised cost using the expected credit loss model is subjected to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. The expected credit losses for financial assets measured at amortised cost are derived from estimates whereby management takes into consideration historical data, the historical loss experience and other adjustment factors. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgment based on management's historical experience. Management reviews the selection of those parameters and the application of the assumptions regularly to reduce any difference between loss estimates and actual loss.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 1(m). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(c) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account estimated residual value. The useful lives and residual value are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation, the rate of depreciation is revised.

(d) Tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(e) Determining the lease term

As explained in policy Note 1(h), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

		31 December 2020	31 December 2019
	<i>Note</i>	RMB'000	RMB'000
Assets			
Cash and cash equivalents		526	5,791
Intangible assets		1,084	1,649
Fixed assets		15,725	25,767
Investments in subsidiaries	15	1,371,100	1,371,100
Deferred tax assets		4,501	5,758
Other assets		211,072	70,823
Total assets		1,604,008	1,480,888
Liabilities			
Interest-bearing borrowings		189,027	107,835
Accruals and other payables		25,287	3,523
Lease liabilities		1,372	62
Total liabilities		215,686	111,420
NET ASSETS		1,388,322	1,369,468
CAPITAL AND RESERVES	22		
Share capital		1,180,000	1,180,000
Reserves		208,322	189,468
TOTAL EQUITY		1,388,322	1,369,468

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

Effective for accounting periods beginning on or after

Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to HKAS 37, <i>Onerous Contracts — Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022

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

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 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 promoted the development of the local financial services industry.

Competition within the microfinance industry in Zhejiang remains intense. As of 31 December 2020, the number of microfinance companies in Zhejiang reached 315 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 31 December 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 year ended 31 December 2020 reached approximately RMB4.32 billion (2019: RMB5.64 billion), out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 85.6% (2019: 73.3%). As of 31 December 2020, the balance of loans (excluding accrued interest) of the Group and these three microfinance companies reached approximately RMB3.18 billion (2019: RMB3.57 billion), out of which the balance of loans (excluding accrued interest) of the Group accounted for approximately 80.5% (2019: 69.5%).

Business Overview

As at 31 December 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.

Despite the impact of COVID-19, the Company still actively responded to the Government to support SMEs. Therefore, with the increase in the size of our loan portfolio, our gross loan balance (excluding accrued interest) increased from RMB2,482.7 million as at 31 December 2019 to RMB2,557.7 million as at 31 December 2020.

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

	As at 31 December 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)	2,557,669	2,482,713
Leverage ratio ⁽¹⁾	2.17	2.10

Note:

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

For the years ended 31 December 2019 and 2020, our average interest rates for loans were 12.8% and 12.0%, respectively. Our average loan interest rate decreased slightly during the aforesaid period, mainly due to the weak external economic environment caused 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 appropriately reduced certain lending rates to maintain our competitiveness in the industry under the situation of the decline in 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 so as to effectively control the credit risk.

The following table sets out the number of our loans and advances by size as at the dates indicated:

	As at 31 December 2020	As at 31 December 2019
Up to RMB500,000	1,367	1,857
Over RMB500,000 to RMB1 million (inclusive)	55	81
Over RMB1 million to RMB5 million (inclusive)	373	378
Over RMB5 million	<u>133</u>	<u>114</u>
Total number of loans and advances to customers	<u>1,928</u>	<u>2,430</u>

As at 31 December 2019 and 2020, approximately 79.8% and 73.8% 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 TYPE OF COLLATERAL

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

	As at 31 December 2020		As at 31 December 2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Unsecured loans ⁽¹⁾	32,154	1.3	29,575	1.2
Guaranteed loans	2,495,163	97.5	2,401,788	96.8
Collateralized loans	22,352	0.9	43,360	1.7
Pledged loans	<u>8,000</u>	<u>0.3</u>	<u>8,000</u>	<u>0.3</u>
Sub-total	2,557,669	100.0	2,482,713	100.0
Accrued interest	<u>29,982</u>		<u>37,327</u>	
Gross loans and advances to customers	<u>2,587,651</u>		<u>2,520,040</u>	

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 original maturity profile of our loans and advances to customers as at the dates indicated:

	As at 31 December 2020		As at 31 December 2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Within three months	25,690	1.0	11,020	0.4
Three to six months	128,908	5.0	69,859	2.8
Six months to one year	2,383,601	93.2	2,377,400	95.8
More than one year	<u>19,470</u>	<u>0.8</u>	<u>24,434</u>	<u>1.0</u>
Sub-total	2,557,669	100.0	2,482,713	100
Accrued interest	<u>29,982</u>		<u>37,327</u>	
Gross loans and advances to customers	<u>2,587,651</u>		<u>2,520,040</u>	

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

	As at 31 December 2020		As at 31 December 2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Up to RMB500,000	70,863	2.8	102,400	4.1
Over RMB500,000 to RMB1 million (inclusive)	49,470	1.9	72,500	2.9
Over RMB1 million to RMB5 million (inclusive)	1,106,829	43.3	1,131,542	45.6
Over RMB5 million	<u>1,330,507</u>	<u>52.0</u>	<u>1,176,271</u>	<u>47.4</u>
Sub-total	2,557,669	100.0	2,482,713	100.0
Accrued interest	<u>29,982</u>		<u>37,327</u>	
Gross loans and advances to customers	<u>2,587,651</u>		<u>2,520,040</u>	

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

	As at 31 December 2020			Total <i>RMB'000</i>
	12-month ECLs <i>RMB'000</i>	Lifetime ECLs non credit- impaired <i>RMB'000</i>	Lifetime ECLs credit- impaired <i>RMB'000</i>	
Gross loans and advances to customers	2,416,654	47,774	123,223	2,587,651
Less: Allowances for impairment losses	<u>(59,336)</u>	<u>(18,134)</u>	<u>(110,067)</u>	<u>(187,537)</u>
Net loans and advances to customers	<u>2,357,318</u>	<u>29,640</u>	<u>13,156</u>	<u>2,400,114</u>
	As at 31 December 2019			Total <i>RMB'000</i>
	12-month ECLs <i>RMB'000</i>	Lifetime ECLs non credit- impaired <i>RMB'000</i>	Lifetime ECLs credit- impaired <i>RMB'000</i>	
Gross loans and advances to customers	2,412,683	158	107,199	2,520,040
Less: Allowances for impairment losses	<u>(65,718)</u>	<u>(51)</u>	<u>(89,692)</u>	<u>(155,461)</u>
Net loans and advances to customers	<u>2,346,965</u>	<u>107</u>	<u>17,507</u>	<u>2,364,579</u>

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

	As at 31 December 2020	As at 31 December 2019
Impaired loan ratio⁽¹⁾	4.8%	4.3%
Balance of impaired loans (RMB'000)	123,223	107,199
Gross loans and advances to customers (RMB'000)	2,587,651	2,520,040
Allowance coverage ratio⁽²⁾	152%	145%
Allowances for impairment losses ⁽³⁾ (RMB'000)	187,537	155,461
Balance of impaired loans (RMB'000)	123,223	107,199
Provision for impairment losses ratio⁽⁴⁾	7.2%	6.2%
Balance of overdue loans (RMB'000)	123,532	71,038
Gross loans and advances to customers (RMB'000)	2,587,651	2,520,040
Overdue loan ratio⁽⁵⁾	4.8%	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 increased from RMB107.2 million as of 31 December 2019 to RMB123.2 million as of 31 December 2020, which was mainly due to the increase of loan balance and the deterioration of the operating environment of some of our loan customers as at 31 December 2020.

Total overdue loans

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Unsecured loans	12,844	18,172
Guaranteed loans	90,686	34,921
Collateralized loans	<u>20,002</u>	<u>17,945</u>
Total overdue loans	<u>123,532</u>	<u>71,038</u>

We had overdue loans of RMB71.0 million and RMB123.5 million as at 31 December 2019 and 31 December 2020, respectively, accounting for 2.8% and 4.8% of our gross loan balance as at the respective dates. As at 19 March 2021, RMB27.9 million out of the overdue loans as of 31 December 2020 was recovered.

Financial Overview

Net interest income

We generate interest income from loans and advances 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 years indicated:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income from		
Loans and advances to customers	304,601	320,064
Cash at banks	<u>351</u>	<u>285</u>
Total interest income	<u>304,952</u>	<u>320,349</u>
Interest and commission expenses from		
Borrowings from banks	(7,800)	(9,030)
Borrowings from non-bank institutions	(40,802)	(40,222)
Lease liabilities	(278)	(194)
Bank charges	<u>(98)</u>	<u>(107)</u>
Total interest and commission expenses	<u>(48,978)</u>	<u>(49,553)</u>
Net interest income	<u>255,974</u>	<u>270,796</u>

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rates that we charge on loans to our customers. Our balance of loans increased during the reporting period, generally in line with the size of our capital base, which is in turn affected by the size of our net assets and financing. As at 31 December 2019 and 2020, our loan balance (excluding accrued interest) were RMB2,482.7 million and RMB2,557.7 million, respectively, and for the years ended 31 December 2019 and 2020, our average interest rates for loans were 12.8% and 12.0%, respectively. Our average loan interest rate decreased slightly during the aforesaid period, mainly due to the weak external economic environment caused 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 appropriately reduced certain lending rates to maintain our competitiveness in the industry under the situation of the decline in 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 so as 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 RMB49.6 million and RMB49.0 million for the years ended 31 December 2019 and 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 31 December 2019 and 2020 amounted to RMB150.0 million and RMB140.0 million, respectively. Our balance of borrowings from non-bank institutions (excluding accrued interest) amounted to RMB558.1 million and RMB511.4 million as at 31 December 2019 and 2020, respectively.

Our net interest income for the years ended 31 December 2019 and 2020 were RMB270.8 million and RMB256.0 million, respectively.

Other net income

Our other net income for the years ended 31 December 2019 and 2020 were RMB14.2 million and RMB7.7 million, respectively. Our other net income decreased during the aforesaid period, mainly due to new public welfare donation for the COVID-19 pandemic of RMB2.0 million and the decrease in government grants of RMB2.9 million.

Impairment losses

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

For the years ended 31 December 2019 and 2020, our impairment losses were RMB36.7 million and RMB48.8 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:

	2020 RMB'000	2019 RMB'000
Tax and surcharge	1,861	1,729
Staff costs	18,441	22,903
Office expenditures and travel expenses	6,384	7,421
Operating lease charges	30	43
Depreciation and amortization expenses	7,884	8,608
Consulting and professional service fees	9,166	9,034
Business development expenses	5,316	3,659
Advertising expenses	1,965	2,710
Others	1,703	3,654
Total administrative expenses	<u>52,750</u>	<u>59,761</u>

Our staff costs accounted for approximately 38.3% and 35.0% of the total administrative expenses for the years ended 31 December 2019 and 2020, respectively. Our staff costs decreased from RMB22.9 million for the year ended 31 December 2019 to RMB18.4 million for the year ended 31 December 2020, which was mainly due to the fact that during the period from February to December 2020, we were exempted from paying premiums on pension insurance, unemployment insurance and work-related injury insurance as well as our payment on basic medical insurance was reduced by half for period from February to June 2020, in accordance with provisions of 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)》) and the Notice on the Extension of the Implementation Period of the Social Insurance Policies for Enterprises in Stages (Ren She Bu Fa [2020] No. 49)(《關於延長階段性減免企業社會保險費政策實施期限等問題的通知(人社部發[2020]49號)》).

Income tax

Our income taxes for the years ended 31 December 2019 and 2020 were RMB47.7 million and RMB44.2 million, respectively, and our effective tax rates were 25.3% and 27.3%, respectively.

Profit and total comprehensive income for the year

We had profit for the year of RMB140.8 million and RMB117.8 million for the years ended 31 December 2019 and 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*), offshore financing 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 31 December 2020, our balance of interest-bearing borrowings was approximately RMB656.2 million (31 December 2019: RMB716.0 million).

Working Capital Management

Cash flows

The following table sets out a selected summary of our cash flow statement for the years indicated:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents as at 1 January	55,310	41,707
Net cash generated from operating activities	148,840	92,675
Net cash used in investing activities	(7,043)	(7,835)
Net cash used in financing activities	(118,825)	(71,156)
Net increase in cash and cash equivalents	22,972	13,684
Effect of the change of exchange rate	(53)	(81)
Cash and cash equivalents as at 31 December	<u>78,229</u>	<u>55,310</u>

Net cash generated from operating activities

Our cash generated from operating activities primarily consisted of interest income from loans granted to customers. Our cash used in operating activities primarily consisted 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. Due to the loan granting nature of our business and the accounting treatment that deployment of cash for granting loans is accounted for as operating cash outflows, we typically experience net cash outflows from operating activities when we expand our loan portfolio, which is generally in line with the industry norm.

Our net cash generated from operating activities for the year ended 31 December 2020 was RMB148.8 million. Our net cash generated from operating activities reflect: (i) our profit before tax of RMB162.1 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB48.8 million, depreciation and amortization of RMB7.9 million, interest expenses of RMB48.9 million, foreign exchange losses of RMB2.4 million; (ii) the effect of changes in working capital, primarily including the increase in total loans and advances to customers of RMB79.6 million, the increase in interest receivables and other assets of RMB5.1 million, and the increase in accruals and other payables of RMB13.8 million; and (iii) income tax paid of RMB50.4 million.

Net cash used in investing activities

For the year ended 31 December 2020, our net cash used in investing activities was RMB7.0 million. Our net cash used in investing activities mainly consisted of: (i) payment for the purchase of fixed assets of RMB6.0 million ; (ii) payment for the purchase of wealth management products and other financial products of RMB4.5 million, partially offset by the redemption of the wealth management products of RMB3.5 million.

Net cash used in financing activities

For the year ended 31 December 2020, our net cash used in financing activities was RMB118.8 million. Our net cash used in financing activities mainly consisted of (i) repayment of interest-bearing borrowings amounted to RMB669.9 million, partially offset by the financing from interest-bearing borrowings received of RMB603.2 million; (ii) payment of interest on borrowings amounted to RMB41.1 million; (iii) payment of lease charge amounted to RMB3.0 million; and (iv) payment of dividend to non-controlling shareholders of RMB8.0 million.

Cash management

As our business primarily relies on our available cash, we normally set aside a sufficient amount of cash for meeting general working capital needs, such as administrative expenses and payment of interests on borrowings from banks and other non-bank institutions, and use the remaining parts for granting loans to our customers. As at 31 December 2019 and 2020, the balance of cash and cash equivalents amounted to RMB55.3 million and RMB78.2 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:

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Cash in hand	3	2
Cash at banks	77,498	54,906
Other currencies in cash	<u>728</u>	<u>402</u>
Cash and cash equivalents	<u><u>78,229</u></u>	<u><u>55,310</u></u>

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:

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Corporate loans	994,721	878,370
Retail loans	1,535,190	1,566,901
Internet loans	<u>27,758</u>	<u>37,442</u>
Sub-total	2,557,669	2,482,713
Accrued interest	<u>29,982</u>	<u>37,327</u>
Gross loans and advances to customers	<u><u>2,587,651</u></u>	<u><u>2,520,040</u></u>
Total allowances for impairment losses	<u>(187,537)</u>	<u>(155,461)</u>
Net loans and advances to customers	<u><u>2,400,114</u></u>	<u><u>2,364,579</u></u>

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.

The following table sets out the maturity profile of the original term of our gross loans and advances to customers as at the dates indicated:

	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2019 <i>RMB'000</i>
Within three months	25,690	11,020
Three to six months	128,908	69,859
Six months to one year	2,383,601	2,377,400
More than one year	<u>19,470</u>	<u>24,434</u>
Sub-total	2,557,669	2,482,713
Accrued interest	<u>29,982</u>	<u>37,327</u>
Gross loans and advances to customers	<u>2,587,651</u>	<u>2,520,040</u>

As at 31 December 2019 and 2020, our overdue loan amounted to RMB71.0 million and RMB123.5 million, respectively, accounting for approximately 2.8% and 4.8% of our gross loans and advances to customers as at the same dates.

The following table sets out loans and advances to customers by type of collateral as at the dates indicated:

	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2019 <i>RMB'000</i>
Unsecured loans ⁽¹⁾	32,154	29,575
Guaranteed loans	2,495,163	2,401,778
Collateralized loans	22,352	43,360
Pledged loans	<u>8,000</u>	<u>8,000</u>
Sub-total	2,557,669	2,482,713
Accrued interest	<u>29,982</u>	<u>37,327</u>
Gross loans and advances to customers	<u>2,587,651</u>	<u>2,520,040</u>

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 96.8% and 97.5% of our gross loans and advances to customers (excluding accrued interest) as at 31 December 2019 and 2020, respectively.

Other Assets

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Prepayment	687	1,173
Others	<u>1,442</u>	<u>25</u>
Total other assets	<u><u>2,129</u></u>	<u><u>1,198</u></u>

Accruals and other payables

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Staff costs payable	4,382	5,788
Value-added tax payable	1,655	1,933
Tax and surcharges and other taxation payable	439	117
Dividends payable to non-controlling interest	7,164	—
Other payables	<u>32,677</u>	<u>14,775</u>
Total accruals and other payables	<u><u>46,317</u></u>	<u><u>22,613</u></u>

During the aforementioned period, our accrued expenses and other payables increased by RMB23.7 million, mainly due to the increase of dividends payable to minority shareholders of a non-wholly owned subsidiary of RMB7.2 million and the increase of other temporary payables.

Current taxation

Our current taxation refers to our income tax payable, amounting to RMB41.2 million and RMB46.1 million as at 31 December 2019 and 2020, respectively.

Capital commitments

As of 31 December 2020, we have no capital commitment (2019: Nil).

Key Financial Indicators

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

	For the year ended 31 December 2020	For the year ended 31 December 2019
Return on weighted average equity (%)	6.5	8.0
Average return on assets (%) ⁽¹⁾	4.6	5.7

Note:

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

Our return on weighted average equity and average return on assets decreased slightly mainly due to the decrease in profit for the year ended 31 December 2020 as compared to the year ended 31 December 2019.

Gearing Ratio

	As of 31 December 2020	As of 31 December 2019
Gearing Ratio (%) ⁽¹⁾	33.1	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 year.

As of 31 December 2019 and 2020, our gearing ratio decreased, which was mainly due to the fact that the balance of the interest-bearing borrowings as of 31 December 2020 decreased as compared to 31 December 2019.

Related Party Transactions

For the year ended 31 December 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 31 December 2020, the amount of guarantee provided by Mr. Yu Yin and other related parties amounted to RMB469.4 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the said provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

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 year ended 31 December 2020, the Company and Jinhui Micro-finance (a non-wholly owned subsidiary of the Company) leased properties from Zuoli Holdings with a depreciation on right-of-use assets and interest expense of RMB2.4 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 transactions constituted connected transactions under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio for the aggregated value of the right-of-use assets in respect of the transactions contemplated under the lease agreements is less than 5%, the transactions contemplated under the lease agreements are 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 transactions on 7 July 2017, 10 July 2017, 7 July 2020 and 10 July 2020.

On 11 December 2020, Xingyao Micro-finance entered into a creditor's rights transfer agreement (the **“Creditor's Rights Transfer Agreement”**) with 杭州興耀建設集團有限公司 (Hangzhou Xing Yao Construction Group Co., Ltd.*) (**“Xing Yao Construction”**), pursuant to which Xingyao Micro-finance agreed to sell and transfer, and Xing Yao Construction agreed to accept the creditor's rights against certain borrowers at a consideration of RMB3,390,000 (equivalent to approximately HK\$4,034,100). The entering into of the Creditor's Rights Transfer Agreement allows Xingyao Micro-finance the chance to recoup the outstanding loans in full by reducing the default risks exposure to those borrowers.

Prior to entering into the Creditor's Rights Transfer Agreement, creditor's rights transfer agreements were entered into between Xingyao Micro-finance and Xing Yao Construction respectively on: (i) 27 December 2018, pursuant to which Xingyao Micro-finance agreed to sell and transfer, Xing Yao Construction agreed to accept the creditor's rights at a consideration of RMB4,326,250 (equivalent to approximately HK\$4,975,187.5); and (ii) 18 October 2019, pursuant to which, Xingyao Micro-finance agreed to sell and transfer, Xing Yao Construction agreed to accept the creditor's rights at a consideration of RMB10,789,320 (equivalent to approximately HK\$11,976,145.2) (the "**Previous Transactions**"). The Company has duly announced the Previous Transactions on 27 December 2018 and 18 October 2019.

Since one or more of the applicable percentage ratios (as set out in Rule 14.07 of the Listing Rules) in respect of the transaction contemplated under the Creditor's Rights Transfer Agreement, when aggregated with the Previous Transactions, exceed 5% but all are less than 25%, the transaction contemplated under the Creditor's Rights Transfer Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Xing Yao Construction is a substantial shareholder of Xingyao Micro-finance, a 60%-owned subsidiary of the Company, and thus a connected person of the Company at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. Therefore, the transaction contemplated under the Creditor's Rights Transfer Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules.

By virtue of Rule 14A.101 of the Listing Rules, since (i) the Board has approved the entering into of the Creditor's Rights Transfer Agreement; and (ii) the independent non-executive Directors have confirmed that the terms of the Creditor's Rights Transfer Agreement are fair and reasonable and are on normal commercial terms and the entering into of the Creditor's Rights Transfer Agreement is in the interests of the Company and its Shareholders as a whole, the transaction contemplated under the Creditor's Rights Transfer Agreement is subject to the reporting and announcement requirements but is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has duly announced the said transaction on 11 December 2020 and 16 December 2020.

Save as disclosed above, during the year ended 31 December 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:

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Interest-bearing borrowings	<u>656,197</u>	<u>715,972</u>

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

OFF-BALANCE SHEET ARRANGEMENTS

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

EMPLOYMENT AND EMOLUMENTS

As at 31 December 2020, the Company had approximately 121 employees (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, the Group had no significant investments held during the year ended 31 December 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisition or disposal of subsidiaries, associates or joint ventures during the year ended 31 December 2020.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2020, the Group has pledged 35% of the equity interest of Jinhui Micro-finance held by the Company as a guarantee for the financing of Jinhui Micro-finance (2019: pledged 60% of the equity interest of Xingyao Micro-finance held by the Company as a guarantee for the financing of Jinhui Micro-finance and pledged 44% of the equity interest of Jinhui Micro-finance held by the Company as a guarantee for the financing of the Company and Jinhui Micro-finance).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

Other than the bank loans we obtain from commercial banks, we may also consider conducting financing on the platform of 浙江股權交易中心 (Zhejiang Equity Exchange Centre*) and financing on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*), foreign financing 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 bank deposit in EUR or HKD and foreign financing 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 31 December 2020, the Group did not have any significant contingent liabilities (2019: nil).

PROSPECTS

With the establishment of China Micro-credit 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 from the regulatory aspect as a whole.

Deqing is 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.

In terms of our major market of offline business, Zhejiang province is the important birthplace of President Xi Jinping's thought on ecological civilisation, 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 was 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.

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.

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") as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2020, the Company has fully complied with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS 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 and supervisors. After specific enquiry with all members of the Board and supervisors of the Company, they have confirmed full compliance with the relevant standards stipulated in the Model Code throughout the year ended 31 December 2020.

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

PURCHASE, SALE OR REDEMPTION BY THE COMPANY, OR ANY OF ITS SUBSIDIARIES, OF THE COMPANY'S LISTED SECURITIES

The Company has not purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2020.

PROPOSED FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2020 (2019: nil).

INTEREST OF DIRECTORS AND SUPERVISORS IN A COMPETING BUSINESS

None of the Directors, the supervisors of the Company or the management Shareholders and their respective close associates (as defined under the Listing Rules) has an interest in a business which competes or may compete with the business of the Company.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events affecting the Group that have occurred from the end of the reporting period to the date of this announcement.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "AGM") will be held at Conference Room, 3th Floor, Zuoli Building, No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province, the PRC on Tuesday, 29 June 2021. Notice of the AGM will be issued and disseminated to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the Shareholder's entitlement to attend and vote at the AGM, the H Share register of members of the Company will be closed from Thursday, 24 June 2021 to Tuesday, 29 June 2021, both days inclusive, during which period no share transfers will be registered. The holders of shares whose names appear on the register of members of the Company on Tuesday, 29 June 2021 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, holders of H Shares of the Company shall lodge transfer documents with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 23 June 2021.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, risk management and internal control systems and financial report matters including the review of the Group's annual results for the year ended 31 December 2020. The annual financial statements of the Group have been audited by the independent auditor of the Company, KPMG.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zlkcx.com.cn). The annual report for the year ended 31 December 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.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as the Shareholders, customers, business associates and other professional parties for their continuous support to the Group throughout the year.

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, 19 March 2021

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