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)

2021 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 2021, 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 2021
(Expressed in Renminbi ("RMB")'000, unless otherwise stated)

	Note	**2021** *RMB'000*	2020 *RMB'000*
Interest income		**269,629**	304,952
Interest and commission expenses		**(51,751)**	(48,978)
Net interest income	*2*	**217,878**	255,974
Other net income	*3*	**34,066**	7,681
Impairment losses	*4*	**(21,123)**	(48,833)
Administrative expenses		**(57,658)**	(52,750)
Profit before taxation	*5*	**173,163**	162,072
Income tax	*6*	**(45,465)**	(44,249)
Profit and total comprehensive income for the year		**127,698**	117,823
Attributable to:			
Equity shareholders of the Company		**116,489**	110,244
Non-controlling interests		**11,209**	7,579
Profit for the year		**127,698**	117,823
Earnings per share			
Basic and diluted (RMB)	*9*	**0.10**	0.09

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

(Expressed in RMB'000, unless otherwise stated)

	Note	31 December 2021 RMB'000	31 December 2020 RMB'000
Assets			
Cash and cash equivalents	*10(a)*	**42,678**	78,229
Interests receivables		**177**	988
Loans and advances to customers	*11*	**2,489,479**	2,400,114
Financial assets measured at fair value through profit or loss	*12*	**10**	1,010
Intangible assets	*13*	**519**	1,136
Goodwill	*14*	**19,899**	20,940
Fixed assets	*16*	**45,080**	50,888
Deferred tax assets	*21(b)*	**52,182**	48,945
Other assets	*17*	**1,188**	2,129
Total assets		**2,651,212**	2,604,379
Liabilities			
Interest-bearing borrowings	*18*	**644,973**	656,197
Lease liabilities	*19*	**4,995**	6,859
Accruals and other payables	*20*	**28,220**	46,317
Current taxation	*21(a)*	**44,398**	46,078
Total liabilities		**722,586**	755,451
NET ASSETS		**1,928,626**	1,848,928
CAPITAL AND RESERVES	*22*		
Share capital		**1,180,000**	1,180,000
Reserves		**684,148**	567,212
Total equity attributable to equity shareholders of the Company		**1,864,148**	1,747,212
Non-controlling interests	*15*	**64,478**	101,716
TOTAL EQUITY		**1,928,626**	1,848,928

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company							
	Share capital	**Capital reserve**	**Surplus reserve**	**General risk reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	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 2020 and 1 January 2021	**1,180,000**	**980**	**45,933**	**61,635**	**458,664**	**1,747,212**	**101,716**	**1,848,928**
Changes in equity for year ended 31 December 2021:								
Profit and total comprehensive income for the year	**—**	**—**	**—**	**—**	**116,489**	**116,489**	**11,209**	**127,698**
Appropriation to surplus reserve	**—**	**—**	**2,861**	**—**	**(2,861)**	**—**	**—**	**—**
Appropriation to general risk reserve	**—**	**—**	**—**	**3,740**	**(3,740)**	**—**	**—**	**—**
Dividends to non-controlling shareholders approved in respect of the previous year *(Note 22(b))*	**—**	**—**	**—**	**—**	**—**	**—**	**(3,200)**	**(3,200)**
Capital withdrawal by non-controlling shareholders *(Note 15)*	**—**	**—**	**—**	**—**	**—**	**—**	**(40,000)**	**(40,000)**
Acquisition of interest in subsidiary from non-controlling shareholders *(Note 15)*	**—**	**447**	**—**	**—**	**—**	**447**	**(5,247)**	**(4,800)**
Balance at 31 December 2021	**1,180,000**	**1,427**	**48,794**	**65,375**	**568,552**	**1,864,148**	**64,478**	**1,928,626**
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

The accompanying notes form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021
(Expressed in RMB'000, unless otherwise stated)

	Note	**2021**	2020
		RMB'000	*RMB'000*
Operating activities			
Cash generated from operations	*10(b)*	**120,662**	199,262
PRC income tax paid	*21(a)*	**(50,382)**	(50,422)
Net cash generated from operating activities		**70,280**	148,840
Investing activities			
Proceeds from disposal of investments		**1,000**	3,506
Proceeds from disposal of fixed assets		**282**	—
Payment for the purchase of fixed assets		**(1,164)**	(6,029)
Payments on acquisition of investments		**—**	(4,520)
Net cash generated from/(used in) investing activities		**118**	(7,043)
Financing activities			
Proceeds from bank loans	*10(c)*	**130,000**	140,000
Proceeds from borrowings from third parties	*10(c)*	**231,910**	334,413
Proceeds from borrowings from Euro zone	*10(c)*	**135,078**	128,811
Repayment of bank loans	*10(c)*	**(140,000)**	(150,000)
Repayment of borrowings from third parties	*10(c)*	**(367,760)**	(519,900)
Interest paid	*10(c)*	**(37,518)**	(41,089)
Capital element of lease rentals paid	*10(c)*	**(2,960)**	(2,746)
Interest element of lease rentals paid	*10(c)*	**(411)**	(278)
Capital withdrawal paid to non-controlling shareholders	*15*	**(40,000)**	—
Payment for acquisition of interest in subsidiary from non-controlling shareholders	*15*	**(2,200)**	—
Dividends paid to non-controlling shareholders		**(10,364)**	(8,036)
Net cash used in financing activities		**(104,225)**	(118,825)
Net (decrease)/increase in cash and cash equivalents		**(33,827)**	22,972
Cash and cash equivalents at 1 January	*10(a)*	**78,229**	55,310
Effect of foreign exchange rate changes		**(1,724)**	(53)
Cash and cash equivalents at 31 December	*10(a)*	**42,678**	78,229

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 2021 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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform — phase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform").

The amendments do not have an impact on these financial statements as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021 (2021 amendment)

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

As there is no rent concession granted to the Group for the year ended 31 December 2021, the amendment has no impact on the Group's financial statements.

(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

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 initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets. Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

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 a fixed number of shares are issued for a fixed amount of cash or other financial assets, 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 the 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 not remeasured and is recognised in the capital reserve until the notes are converted.

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.

(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). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

— 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.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(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:

	2021	2020
	RMB'000	*RMB'000*
Interest income arising from		
Loans and advances to customers	**269,323**	304,601
Cash at banks	**306**	351
	269,629	304,952
Interest and commission expenses arising from		
Borrowings from non-bank institutions	**(44,990)**	(40,802)
Borrowings from banks	**(6,221)**	(7,800)
Lease liabilities	**(411)**	(278)
Bank charges	**(129)**	(98)
	(51,751)	(48,978)
Net interest income	**217,878**	255,974

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 2021 and 2020. Details of concentration of credit risk are set out in Note 23(a).

For the years ended 31 December 2021 and 2020, 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

	2021	2020
	RMB'000	*RMB'000*
Government grants *(Note)*	**20,203**	12,244
Exchange gains/(losses)	**13,851**	(2,459)
Donations	**(120)**	(2,100)
Gains from disposal of fixed assets	**124**	—
Others	**8**	(4)
Total	**34,066**	7,681

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

4 IMPAIRMENT LOSSES

	2021	2020
	RMB'000	*RMB'000*
Loans and advances to customers *(Note 11)*	**18,877**	43,992
Interest receivables	**241**	3,157
Goodwill *(Note 14)*	**1,041**	1,562
Other assets	**964**	122
Total	**21,123**	48,833

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	2021	2020
	RMB'000	*RMB'000*
Salaries, bonuses and allowance	**16,171**	14,645
Contribution to retirement scheme	**1,329**	88
Social insurance and other benefits	**4,053**	3,708
Total	**21,553**	18,441

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

	2021	2020
	RMB'000	*RMB'000*
Depreciation expenses *(Note 16)*		
— owned fixed assets	**4,893**	5,141
— right-of-used assets	**2,739**	2,126
Amortization of intangible assets	**617**	617
Operating lease charges	**73**	30
Auditors' remuneration		
— audit services	**3,086**	3,086
— other services	**80**	80

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:

	2021	2020
	RMB'000	*RMB'000*
Current tax *(Note 21(a))*		
Provision for PRC income tax for the year	**48,702**	55,251
Deferred tax *(Note 21(b))*		
Origination and reversal of temporary differences	**(3,237)**	(11,002)
Total	**45,465**	44,249

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

	2021	2020
	RMB'000	*RMB'000*
Profit before taxation	**173,163**	162,072
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned *(Notes)*	**43,291**	40,518
Under-provision in respect of prior years	**—**	2,392
Effect of non-deductible expenses	**2,174**	1,339
Actual income tax expense	**45,465**	44,249

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 2021 (2020: 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 2021 (2020: 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:

			2021		
	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**	**551**	**25**	**120**	**702**
Executive directors					
Zheng Xuegen (鄭學根)	**6**	**354**	**25**	**150**	**535**
Yang Sheng (楊晟)	**6**	**540**	**25**	**120**	**691**
Hu Fangfang (胡芳芳)	**6**	**379**	**25**	**118**	**528**
Non-executive director					
Pan Zhongmin (潘忠敏)	**6**	**—**	**—**	**—**	**6**
Independent non-executive directors					
Chan Kin Man (陳健民)	**123**	**—**	**—**	**—**	**123**
Zhao Xuqiang (趙旭強)	**100**	**—**	**—**	**—**	**100**
Yang Jie (楊婕)	**100**	**—**	**—**	**—**	**100**
Supervisors					
Wang Peijun (王培軍)	**6**	**—**	**—**	**—**	**6**
Wang Suliang (王蘇良)	**6**	**280**	**22**	**130**	**438**
Zhou Mingwan (周明萬)	**6**	**—**	**—**	**—**	**6**
	371	**2,104**	**122**	**638**	**3,235**

	2020				
	Director's Fees	Salaries, allowances and other benefits in kind	Pension scheme	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2020: four) are directors or supervisors of the Group for the year ended 31 December 2021, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other individual are as follow:

	2021	2020
	RMB'000	*RMB'000*
Salaries and other emoluments	**340**	337
Discretionary bonuses	**120**	110
Pension scheme	**22**	2
	482	449

The emoluments of the one (2020: one) individual with the highest emoluments are within the following bands:

	2021	2020
	Number of individuals	Number of individuals
Hong Kong dollar		
Nil – 1,000,000	**1**	1
1,000,001 – 1,500,000	**—**	—

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 2021 and 2020.

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:

	2021	2020
Profit attributable to the equity shareholders of the Company (RMB'000)	**116,489**	110,244
Weighted average number of ordinary shares in issue ('000)	**1,180,000**	1,180,000
Basic earnings per share (RMB)	**0.10**	0.09

(a) Weighted average number of ordinary shares

	2021	2020
	'000	*'000*
Issued ordinary shares at 1 January	**1,180,000**	1,180,000
Weighted average number of ordinary shares at 31 December	**1,180,000**	1,180,000

There were no dilutive potential ordinary shares during the years ended 31 December 2021 and 2020, 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 2021	31 December 2020
	RMB'000	*RMB'000*
Cash in hand	**3**	3
Cash at banks	**42,673**	77,498
Others	**2**	728
Cash and cash equivalents in the cash flow statement	**42,678**	78,229

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

	2021	2020
	RMB'000	*RMB'000*
Profit before taxation	**173,163**	162,072
Adjustment for:		
Impairment losses	**21,123**	48,833
Depreciation and amortisation	**8,249**	7,884
Exchange (gains)/losses	**(13,851)**	2,459
Interest expenses	**51,622**	48,880
Investment income	**—**	4
Net gains on disposal of fixed assets	**(124)**	—
Changes in working capital:		
Increase in loans and advances to customers	**(108,242)**	(79,527)
Decrease/(increase) in interest receivables and other assets	**546**	(5,116)
(Decrease)/increase in accruals and other payables	**(11,824)**	13,773
Cash generated from operations	**120,662**	199,262

(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	Other borrowings from third parties	Convertible notes	Borrowings from Euro zone	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	**140,192**	**249,191**	**77,787**	**189,027**	**6,859**	**663,056**
Changes from financing cash flow						
Proceeds from bank loans	**130,000**	**—**	**—**	**—**	**—**	**130,000**
Repayment of bank loans	**(140,000)**	**—**	**—**	**—**	**—**	**(140,000)**
Proceeds from borrowings from third parties	**—**	**231,910**	**—**	**—**	**—**	**231,910**
Repayment of borrowings from third parties	**—**	**(287,760)**	**(80,000)**	**—**	**—**	**(367,760)**
Proceeds from borrowings from Euro zone	**—**	**—**	**—**	**135,078**	**—**	**135,078**
Capital element of lease rentals paid	**—**	**—**	**—**	**—**	**(2,960)**	**(2,960)**
Interest element of lease rentals paid	**—**	**—**	**—**	**—**	**(411)**	**(411)**
Interest paid	**(6,256)**	**(12,808)**	**(5,599)**	**(12,855)**	**—**	**(37,518)**
Total changes from financing cash flows	**(16,256)**	**(68,658)**	**(85,599)**	**122,223**	**(3,371)**	**(51,661)**
Exchange adjustments	**—**	**—**	**—**	**(15,576)**	**—**	**(15,576)**
Other changes:						
Interest expense *(Note 2)*	**6,221**	**19,809**	**7,812**	**17,369**	**411**	**51,622**
Commission payables related to obtaining other borrowings	**—**	**661**	**—**	**770**	**—**	**1,431**
Value-added tax	**—**	**—**	**—**	**—**	**278**	**278**
Increase in lease liabilities from entering into new leases during the year	**—**	**—**	**—**	**—**	**818**	**818**
Total other changes	**6,221**	**20,470**	**7,812**	**18,139**	**1,507**	**54,149**
At 31 December 2021	**130,157**	**201,003**	**—**	**313,813**	**4,995**	**649,968**

	Bank loans	Other borrowings from third parties	Convertible notes	Borrowings from Euro zone	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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 *(Note 2)*	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

(d) Total cash outflow for leases:

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

	2021	2020
	RMB'000	*RMB'000*
Within operating cash flows	**33**	30
Within financing cash flows	**3,371**	3,024
Cash flows of rentals paid on leases	**3,404**	3,054

These amounts relate to the following:

	2021	2020
	RMB'000	*RMB'000*
Lease rentals paid	**3,404**	3,054

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2021	31 December 2020
	RMB'000	*RMB'000*
Corporate loans	**1,016,232**	994,721
Retail loans	**1,611,615**	1,535,190
Micro-loans granted online	**27,843**	27,758
Sub-total	**2,655,690**	2,557,669
Accrued interest	**31,473**	29,982
Gross loans and advances to customers	**2,687,163**	2,587,651
Less: Allowances for impairment losses	**(197,684)**	(187,537)
Net loans and advances to customers	**2,489,479**	2,400,114

(b) Analysed by type of collateral

	31 December 2021	31 December 2020
	RMB'000	*RMB'000*
Unsecured loans	**29,527**	32,154
Guaranteed loans	**2,596,837**	2,495,163
Collateralized loans	**12,262**	22,352
Pledged loans	**17,064**	8,000
Sub-total	**2,655,690**	2,557,669
Accrued interest	**31,473**	29,982
Gross loans and advances to customers	**2,687,163**	2,587,651
Less: Allowances for impairment losses	**(197,684)**	(187,537)
Net loans and advances to customers	**2,489,479**	2,400,114

(c) Analysed by industry sector

	31 December 2021		31 December 2020	
	RMB'000	*%*	*RMB'000*	*%*
Wholesale and retail	**529,768**	**20%**	496,300	19%
Manufacturing	**88,864**	**3%**	64,200	3%
Construction	**109,300**	**4%**	125,200	5%
Agriculture, forestry, animal husbandry and fishery	**500**	**1%**	22,500	1%
Others	**287,800**	**11%**	286,521	11%
Corporate loans	**1,016,232**	**39%**	994,721	39%
Retail loans	**1,611,615**	**60%**	1,535,190	60%
Micro-loans granted online	**27,843**	**1%**	27,758	1%
Sub-total	**2,655,690**	**100%**	2,557,669	100%
Accrued interest	**31,473**		29,982	
Gross loans and advances to customers	**2,687,163**		2,587,651	
Less: Allowances for impairment losses	**(197,684)**		(187,537)	
Net loans and advances to customers	**2,489,479**		2,400,114	

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

	31 December 2021				
	Overdue within 3 months (inclusive)	**Overdue more than 3 months to 6 months (inclusive)**	**Overdue more than 6 months to one year (inclusive)**	**Overdue more than one year**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Unsecured loans	**483**	**290**	**486**	**12,127**	**13,386**
Guaranteed loans	**31,102**	**1,780**	**40,455**	**31,250**	**104,587**
Collateralized loans	**1,004**	**—**	**—**	**4,013**	**5,017**
Total	**32,589**	**2,070**	**40,941**	**47,390**	**122,990**

	31 December 2020				
	Overdue within 3 months (inclusive)	Overdue more than 3 months to 6 months (inclusive)	Overdue more than 6 months to one year (inclusive)	Overdue more than one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unsecured loans	310	213	269	12,052	12,844
Guaranteed loans	50,500	12,919	19,265	8,002	90,686
Collateralized loans	4,190	—	1,800	14,012	20,002
Total	55,000	13,132	21,334	34,066	123,532

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 2021			
	12-month ECLs	**Lifetime ECLs non credit-impaired**	**Lifetime ECLs credit-impaired**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Gross loans and advances to customers	**2,498,812**	**64,764**	**123,587**	**2,687,163**
Less: Allowances for impairment losses	**(65,720)**	**(13,939)**	**(118,025)**	**(197,684)**
Net loans and advances to customers	**2,433,092**	**50,825**	**5,562**	**2,489,479**

	31 December 2020			
	12-month ECLs *RMB'000*	Lifetime ECLs non credit-impaired *RMB'000*	Lifetime ECLs credit-impaired *RMB'000*	Total *RMB'000*
Gross loans and advances to customers	2,416,654	47,774	123,223	2,587,651
Less: Allowances for impairment losses	(59,336)	(18,134)	(110,067)	(187,537)
Net loans and advances to customers	2,357,318	29,640	13,156	2,400,114

(f) Movements of allowances for impairment losses

	2021			
	12-month ECLs ***RMB'000***	**Lifetime ECLs non credit-impaired** ***RMB'000***	**Lifetime ECLs credit-impaired** ***RMB'000***	**Total** ***RMB'000***
At 1 January 2021	**59,336**	**18,134**	**110,067**	**187,537**
Transferred to				
— Lifetime ECLs non credit-impaired	**(2)**	**2**	**—**	**—**
— Lifetime ECLs credit-impaired	**(1,881)**	**(97)**	**1,978**	**—**
Charge/(reversal) for the year	**8,267**	**(4,100)**	**14,710**	**18,877**
Write off	**—**	**—**	**(11,574)**	**(11,574)**
Recoveries of loans and advances written off in previous years	**—**	**—**	**2,844**	**2,844**
At 31 December 2021	**65,720**	**13,939**	**118,025**	**197,684**

	2020			
	12-month ECLs *RMB'000*	Lifetime ECLs non credit-impaired *RMB'000*	Lifetime ECLs credit-impaired *RMB'000*	Total *RMB'000*
At 1 January 2020	65,718	51	89,692	155,461
Transferred to				
— Lifetime ECLs non credit-impaired	(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	—	—	773	773
At 31 December 2020	59,336	18,134	110,067	187,537

(g) Analysed by credit quality

	2021 *RMB'000*
Gross balance of loans and advances to customers that are assessed for 12-month ECLs	
— Neither overdue nor credit-impaired	**2,498,812**
Sub-total	**2,498,812**
Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired	
— Overdue but not credit-impaired	**5**
— Neither overdue nor credit-impaired	**64,759**
Sub-total	**64,764**
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired	
— Overdue and credit-impaired	**122,985**
— Not overdue but credit-impaired	**602**
Sub-total	**123,587**
Less: Allowances for impairment losses	**(197,684)**
Net value	**2,489,479**

	2020
	RMB'000
Gross balance of loans and advances to customers that are assessed for 12-month ECLs	
— Neither overdue nor credit-impaired	2,416,654
Sub-total	2,416,654
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	47,465
Sub-total	47,774
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired	
— Overdue and credit-impaired	123,223
Sub-total	123,223
Less: Allowances for impairment losses	(187,537)
Net value	2,400,114

12 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2021	31 December 2020
	RMB'000	*RMB'000*
Units in hybrid fund *(Note (i))*	**—**	1,000
Wealth management product *(Note (ii))*	**10**	10
	10	1,010

Notes:

(i) The hybrid fund was issued by an asset management company in the PRC, which was an unlisted investment. This fund has been settled during the year ended 31 December 2021.

(ii) Wealth management product was issued by a bank in the PRC, which was an unlisted investment.

13 INTANGIBLE ASSETS

	31 December 2021	31 December 2020
	RMB'000	*RMB'000*
Computer software	**519**	1,136

14 GOODWILL

	RMB'000
Cost:	
At 1 January and 31 December 2021	22,502
Accumulated impairment losses:	
At 1 January 2021	(1,562)
Impairment loss	(1,041)
At 31 December 2021	(2,603)
Carrying amount:	
At 31 December 2021	19,899
At 31 December 2020	20,940

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

	31 December 2021	31 December 2020
	RMB'000	*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")	**1,894**	2,935
	19,899	20,940

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 1.8% 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 10.81% and 11.67% by Jinhui Micro-finance and Xingyao Micro-finance respectively at 31 December 2021 (2020: Jinhui Micro-finance: 11.07%; Xingyao Micro-finance: 11.83%). The discounted rates are pre-tax and reflect specific risks relating to the acquired subsidiaries.

The impairment loss of RMB1.0 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 RMB154.2 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.

			Proportion of ownership interest at 31 December 2021		
Name of Companies	**Place of incorporation and business**	**Paid up capital**	**Group's effective interest**	**Held by the Company**	**Principal activities**
Jinhui Micro-finance *(Note (i))*	Deqing, Zhejiang	1,228,000,000	99.76%	99.76%	Micro-finance
Zuoli Micro-finance Hong Kong International Investment Company Limited (佐力小貸香港國際投資有限公司) ("Zuoli HK") *(Note (ii))*	Hong Kong	—	100.00%	100.00%	Investment, trading
Xingyao Micro-finance *(Note (iii))*	Hangzhou, Zhejiang	100,000,000	60%	60%	Micro-finance

Name of Companies	Place of incorporation and business	Paid up capital	Proportion of ownership interest at 31 December 2020 Group's effective interest	Held by the Company	Principal activities
Jinhui Micro-finance *(Note (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") *(Note (ii))*	Hong Kong	—	100.00%	100.00%	Investment, trading
Xingyao Micro-finance *(Note (iii))*	Hangzhou, Zhejiang	200,000,000	60%	60%	Micro-finance

Notes:

(i) Pursuant to the equity transfer agreement and the supplemental agreement entered into by the Company and a non-controlling shareholder of Jinhui Micro-finance dated 25 January 2021 and 6 July 2021, the Company acquired 0.33% equity interest in Jinhui Micro-finance at a consideration of RMB4.8 million after obtaining approvals from relevant authorities in the PRC. Upon the completion of the aforementioned acquisition, the Company's equity interest in Jinhui Micro-finance increased from approximately 99.43% to 99.76%. As at 31 December 2021, the Company had paid RMB2.2 million in accordance with the payment plan in the supplemental agreement. The difference between the acquisition consideration and the carrying amount of the 0.33% equity interest in Jinhui Micro-finance amounted to RMB447 thousand was recorded as Reserves-Capital reserve in 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 2021, the issued shares had not been paid by the Company.

(iii) At the Xingyao Micro-finance's shareholders' meeting held on 30 October 2020, the capital of RMB100.0 million was approved to be returned to all equity shareholders on a pro-rata basis. After obtaining approvals from relevant authorities in the PRC in January 2021, the capital was paid and the capital of Xingyao Micro-finance was reduced by RMB100.0 million.

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.

	2021	2020
	RMB'000	*RMB'000*
NCI Percentage	**40%**	40%
Total assets	**154,716**	244,414
Total liabilities	**(3,643)**	(12,630)
Net assets	**151,073**	231,784
Carrying amount of NCI	**60,429**	92,714
Net interest income	**22,284**	33,935
Profit and total comprehensive income for the year	**27,289**	17,439
Profit allocated to NCI	**10,916**	6,976
Net cash generated from operating activities	**87,529**	26,393
Net cash (used in)/generated from investing activities	**(34,973)**	36,486
Net cash used in financing activities	**(115,664)**	(31,229)

16 FIXED ASSETS

(a) Reconciliation of carrying amount

	Premises *RMB'000*	Right-of-use assets *RMB'000*	Office and other equipment *RMB'000*	Motor vehicles *RMB'000*	Electronic equipment *RMB'000*	Leasehold improvement *RMB'000*	Total *RMB'000*
Cost:							
At 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 and 1 January 2021	21,084	8,081	3,943	5,086	1,877	35,882	75,953
Additions	1,031	818	22	—	111	—	1,982
Retirement	—	—	—	(630)	—	—	(630)
At 31 December 2021	22,115	8,899	3,965	4,456	1,988	35,882	77,305
Accumulated depreciation:							
At 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 and 1 January 2021	(1,521)	(1,122)	(2,445)	(3,958)	(1,674)	(14,345)	(25,065)
Charge for the year	(726)	(2,739)	(554)	(531)	(76)	(3,006)	(7,632)
Retirement	—	—	—	472	—	—	472
At 31 December 2021	(2,247)	(3,861)	(2,999)	(4,017)	(1,750)	(17,351)	(32,225)
Net book value:							
At 31 December 2021	19,868	5,038	966	439	238	18,531	45,080
At 31 December 2020	19,563	6,959	1,498	1,128	203	21,537	50,888

(b) Right-of-use assets

	At 31 December 2021 ***RMB'000***	At 31 December 2020 *RMB'000*
Premises leased for own use, carried at depreciated cost	**5,038**	6,959

17 OTHER ASSETS

	31 December 2021 RMB'000	31 December 2020 RMB'000
Prepayment	**822**	687
Others	**366**	1,442
	1,188	2,129

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

18 INTEREST-BEARING BORROWINGS

	31 December 2021 RMB'000	31 December 2020 RMB'000
Bank loans *(Note (i))*		
— Amortised cost	**130,000**	140,000
— Accrued interest	**157**	192
	130,157	140,192
Borrowings from third parties *(Note (ii))*		
— Amortised cost	**196,980**	245,468
— Accrued interest	**4,023**	3,723
	201,003	249,191
Convertible notes *(Note (iii))*		
— Amortised cost	**—**	77,143
— Accrued interest	**—**	644
	—	77,787
Borrowings from Euro zone *(Note (iv))*		
— Amortised cost	**313,784**	188,803
— Accrued interest	**29**	224
	313,813	189,027
Total	**644,973**	656,197

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 2021 and 31 December 2020, none of the covenants relating to the bank loans had been breached.

(ii) In 2021, the Group obtained financings with nominal amount totaling RMB238.1 million at an interest rate ranging from 5.40% to 5.70% per annum by issuing financing products indirectly on trading platforms located in the PRC which are due from March 2022 to November 2022. As at 31 December 2021, the remaining balance of these financial products was RMB199.8 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.

As at 31 December 2021, all of the convertible notes have been redeemed at maturity.

(iv) During the years ended 31 December 2019 and 2020, the Group obtained financing with nominal amount totaling EUR14.8 million at an interest rate of 4.38% per annum from a financial institution located in Euro zone, which are due in December 2022. In 2020, the Group also obtained financing with nominal amount CNH76.1 million at an interest rate of 6.30% per annum from the same financial institution, which is due in May 2022.

In 2021, the Group obtained financing with nominal amount totaling EUR11.7 million from four financial institutions located in Euro zone, which bear interest ranging from 4.25% to 4.38% per annum and are due from December 2022 to December 2024. Among these borrowings, nominal amount totaling EUR4.5 million at an interest rate of 4.25% per annum are guaranteed by the Jinhui Micro-finance, which are due in June 2024.

The Group also obtained financing with nominal amount totaling CNH52.6 million at an interest rate of 6.30% per annum from a financial institution located in Euro zone, which are due in 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 2021		At 31 December 2020	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within 1 year	**3,197**	**3,274**	2,911	2,980
After 1 year but within 2 years	**1,649**	**1,801**	2,685	2,979
After 2 years but within 5 years	**149**	**175**	1,263	1,490
	4,995	**5,250**	6,859	7,449
Less: total future interest expenses		**(255)**		(590)
Present value of lease liabilities		**4,995**		6,859

20 ACCRUALS AND OTHER PAYABLES

	31 December 2021	31 December 2020
	RMB'000	*RMB'000*
Accrued staff costs	**5,529**	4,382
Value-added tax payable	**6,479**	1,655
Tax and surcharges and other taxation payable	**1,984**	439
Dividend payable to non-controlling shareholders	**—**	7,164
Other payables	**14,228**	32,677
	28,220	46,317

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 2021	31 December 2020
	RMB'000	*RMB'000*
Balance of income tax payable at the beginning of the year	**46,078**	41,249
Provision for PRC income tax for the year *(Note 6(a))*	**48,702**	55,251
Income tax paid during the year	**(50,382)**	(50,422)
Balance of income tax payable at the end of the year	**44,398**	46,078

(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 2020 and 2021 are as follows:

Deferred tax assets arising from:	**Provision for impairment losses**	**Accrued expenses**	**Tax deductible losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	37,570	373	—	37,943
Charged to profit or loss *(Note 6(a))*	9,886	(28)	1,144	11,002
At 31 December 2020 and 1 January 2021	47,456	345	1,144	48,945
Charged to profit or loss *(Note 6(a))*	4,477	(96)	(1,144)	3,237
At 31 December 2021	51,933	249	—	52,182

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	**Surplus reserve**	**General risk reserve**	**Retained profits**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
	Note 22(c)	***Note 22(d)(ii)***	***Note 22(d)(iii)***		
Balance at 31 December 2020 and 1 January 2021	**1,180,000**	**45,933**	**23,600**	**138,789**	**1,388,322**
Changes in equity for 2021:					
Total comprehensive income for the year	**—**	**—**	**—**	**28,614**	**28,614**
Appropriation to surplus reserve	**—**	**2,861**	**—**	**(2,861)**	**—**
Appropriation to general risk reserve	**—**	**—**	**2,201**	**(2,201)**	**—**
Balance at 31 December 2021	**1,180,000**	**48,794**	**25,801**	**162,341**	**1,416,936**

	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	1,180,000	44,048	21,786	123,634	1,369,468
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	—	—	1,814	(1,814)	—
Balance at 31 December 2020	1,180,000	45,933	23,600	138,789	1,388,322

(b) Dividends

As of 31 December 2021, the Company did not declare a final dividend for the year of 2020. (2020: nil).

At the Xingyao Micro-finance's shareholders' meeting held on 20 May 2021, the cash dividend of RMB8.0 million was approved to declare to all equity shareholders and paid during the year ended 31 December 2021. The dividend was attributable to the year of 2020.

At the Xingyao Micro-finance's shareholders' meetings held on 8 May 2020 and 30 December 2020, the cash dividend of RMB38.0 million in total was approved to declare to all equity shareholders and paid RMB30.8 million during the year ended 31 December 2020. The dividend was attributable to the year of 2019.

(c) Share capital

As at 31 December 2021, 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 18 March 2022, the proposed profit appropriations for the year ended 31 December 2021 are as follows:

— Appropriate RMB2.9 million (10% of the net profit of the Company) to surplus reserve;

— Appropriate RMB2.2 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 2021, the shareholders approved the following profit appropriations for the year ended 31 December 2020:

— Appropriate RMB1.9 million (10% of the net profit of the Company) to surplus reserve;

— Reverse RMB1.8 million from general risk reserve to retained profits.

(f) Distributable reserves

At 31 December 2020 and 31 December 2021, 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 RMB138.8 million and RMB162.3 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 2020 and 2021.

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 2021, 1.53% (31 December 2020: 1.55%) and 6.48% (31 December 2020: 6.61%) 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 2021					
	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	**42,678**	**—**	**—**	**—**	**42,678**	**42,678**
Interest receivables	**177**	**—**	**—**	**—**	**177**	**177**
Loans and advances to customers	**138,159**	**488,954**	**2,204,620**	**12,784**	**2,844,517**	**2,489,479**
Financial assets measured at fair value through profit or loss	**10**	**—**	**—**	**—**	**10**	**10**
Other assets	**366**	**—**	**—**	**—**	**366**	**366**
Total	**181,390**	**488,954**	**2,204,620**	**12,784**	**2,887,748**	**2,532,710**
Liabilities						
Interest-bearing borrowings	**—**	**(66,328)**	**(539,332)**	**(72,598)**	**(678,258)**	**(644,973)**
Lease liabilities	**—**	**(1,635)**	**(1,640)**	**(1,975)**	**(5,250)**	**(4,995)**
Accruals and other payables	**(14,228)**	**—**	**—**	**—**	**(14,228)**	**(14,228)**
Total	**(14,228)**	**(67,963)**	**(540,972)**	**(74,573)**	**(697,736)**	**(664,196)**
	167,162	**420,991**	**1,663,648**	**(61,789)**	**2,190,012**	**1,868,514**

	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	1,442	—	—	—	1,442	1,442
Total	212,701	493,494	2,134,753	417	2,841,365	2,481,783
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	(39,841)	—	—	—	(39,841)	(39,841)
Total	(39,841)	(3,035)	(503,355)	(205,848)	(752,079)	(702,897)
	172,860	490,459	1,631,398	(205,431)	2,089,286	1,778,886

(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 2021 ***RMB'000***	31 December 2020 *RMB'000*
Fixed interest rate		
Financial assets		
— Loans and advances to customers	**2,489,479**	2,400,114
Financial liabilities		
— Interest-bearing borrowings	**(644,973)**	(656,197)
— Leased liability	**(4,995)**	(6,859)
Net	**1,839,511**	1,737,058
Variable interest rate		
Financial assets		
— Cash and cash equivalent	**42,673**	77,498
Net	**42,673**	77,498
Net fixed rate borrowings as a percentage of total borrowings	**100.00%**	100.00%

(ii) *Sensitivity analysis*

At 31 December 2021 and 31 December 2020, 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 RMB160,000 and RMB291,000 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	
	2021	2020
	Euros	Euros
	RMB'000	*RMB'000*
Cash and cash equivalents	**36,058**	1
Interest-bearing borrowings	**(190,630)**	(118,447)
	(154,572)	(118,446)

(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.

	2021		2020	
	Increase/(decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	Increase/(decrease) in foreign exchange rates	Effect on profit after tax and retained profits
	bps	***RMB'000***	*bps*	*RMB'000*
Euros	**100**	**(1,159)**	100	(888)
	(100)	**1,159**	(100)	888

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 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Financial assets at fair value through profit or loss				
Wealth management products	**—**	**10**	**—**	**10**

	At 31 December 2020			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss				
Units in hybrid fund	—	1,000	—	1,000
Wealth management products	—	10	—	10

(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 2020 and 31 December 2021.

24 COMMITMENTS

As at 31 December 2021 and 31 December 2020, there is no capital commitment of the Group.

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	2021	2020
	RMB'000	*RMB'000*
Key management personnel remuneration *(Note (i))*	**3,235**	3,044
Receiving guarantees for bank loans *(Note (ii))*	**130,000**	140,000
Receiving guarantees for borrowing from third parties *(Note (iii))*	**238,110**	339,870
Releasing guarantees for convertible notes *(Note (iv))*	**(80,000)**	—
Releasing guarantees for bank loans *(Note (ii))*	**(140,000)**	(150,000)
Releasing guarantees for borrowing from third parties *(Note (iii))*	**(287,760)**	(519,900)

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 2021 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 2021 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 2021 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 2021	31 December 2020
	RMB'000	*RMB'000*
Guarantees received for borrowing from third parties	**199,760**	249,410
Guarantees received for bank loans	**130,000**	140,000
Guarantees received for convertible notes	**—**	80,000

(c) Other related party transactions

	2021	2020
	RMB'000	*RMB'000*
Administrative expenses *(Note (i))*	**1,379**	987
Depreciation expense of right-of-use assets *(Note (ii))*	**2,693**	2,126
Interest expense of lease liabilities *(Note (ii))*	**401**	278
Receiving guarantees for bank loans *(Note (iii))*	**130,000**	140,000
Receiving guarantees for borrowing from third parties *(Note (iv))*	**238,110**	339,870
Receiving guarantees for borrowing from Euro zone *(Note (vi))*	**32,489**	—
Releasing guarantees for convertible notes *(Note (v))*	**(80,000)**	—
Releasing guarantees for bank loans *(Notes (iii))*	**(140,000)**	(150,000)
Releasing guarantees for borrowing from third parties *(Note (iv))*	**(287,760)**	(519,900)

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 2021 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 2021 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 2021 were provided by other related parties of the Group without charges. For the details of convertible notes, please refer to Note 18(iii).

(vi) The guarantees for borrowings from Euro zone during the year ended 31 December 2021 were provided by Jinhui Micro-finance without charges. For the details of borrowings from Euro zone, please refer to Note 18(iv).

(d) Balances with other related parties

	31 December 2021 *RMB'000*	31 December 2020 *RMB'000*
Lease liabilities	**4,280**	6,859
Guarantees received for bank loans	**130,000**	140,000
Guarantees received for borrowing from third parties	**199,760**	249,410
Guarantees received for convertible notes	**—**	80,000
Guarantees received for borrowing from Euro zone	**32,489**	—

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

	Note	**31 December 2021** *RMB'000*	31 December 2020 *RMB'000*
Assets			
Cash and cash equivalents		**36,784**	526
Intangible assets		**518**	1,084
Fixed assets		**22,484**	15,725
Investments in subsidiaries	*15*	**1,315,900**	1,371,100
Deferred tax assets		**3,189**	4,501
Other assets		**367,433**	211,072
Total assets		**1,746,308**	1,604,008
Liabilities			
Interest-bearing borrowings		**313,813**	189,027
Accruals and other payables		**8,200**	25,287
Current taxation		**6,503**	—
Lease liabilities		**856**	1,372
Total liabilities		**329,372**	215,686
NET ASSETS		**1,416,936**	1,388,322
CAPITAL AND RESERVES	*22*		
Share capital		**1,180,000**	1,180,000
Reserves		**236,936**	208,322
TOTAL EQUITY		**1,416,936**	1,388,322

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021 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, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, Property, *Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts — Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023

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 Zhejiang Province, where the main market share comes from Deqing County. Zhejiang province is the important birthplace of President Xi Jinping's thought on ecological civilisation, and according to the Opinion on Supporting the High Quality Development and the Construction of a Common Prosperity Demonstration Zone in Zhejiang (《關於支持浙江高質量發展建設共同富裕示範區的意見》) ("Opinion") issued by the State Council in May 2021, Zhejiang Province was endowed an important demonstration reform task of realizing common prosperity and a series of important decisions and deployment were proposed, which will be more favorable for the overall coordinated development of Zhejiang Province in terms of economy, society, culture, ecology, etc. Besides, 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, and is one of the best cities in Zhejiang Province and even nationwide in respect of financial ecological environment, which brings the Company a unique advantage to explore green development. We seized the opportunity and became the first and the only green micro-finance pilot unit in Huzhou. 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 2021, the number of microfinance companies in Zhejiang reached 294 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 2021, 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 2021 reached approximately RMB3.92 billion (2020: RMB4.32 billion), out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 85.0% (2020: 85.6%). As of 31 December 2021, the balance of loans (excluding accrued interest) of the Group and these three microfinance companies reached approximately RMB3.03 billion (2020: RMB3.18 billion), out of which the balance of loans (excluding accrued interest) of the Group accounted for approximately 87.7% (2020: 80.5%).

Business Overview

As at 31 December 2021, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Local Financial Regulatory Bureau of Zhejiang* (浙江省地方金融監督管理局). 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. Besides, as the pilot unit of green micro-finance company in Huzhou, we actively explored green micro-finance model, granted green finance to green industries including ecology, agriculture, forestry, animal husbandry and fishery, development of new energy as well as technological improvement of energy conservation and emission reduction, and will gradually expand the proportion of green finance.

Our gross loan balance (excluding accrued interest) increased from RMB2,557.7 million as at 31 December 2020 to RMB2,655.7 million as at 31 December 2021.

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 2021	As at 31 December 2020
Registered capital (RMB'000)	**1,180,000**	1,180,000
Gross loans and advances to customers (excluding accrued interest, RMB'000)	**2,655,690**	2,557,669
Leverage ratio[(1)]	**2.25**	2.17

Note:

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

For the years ended 31 December 2020 and 2021, our average interest rates for loans were 12.0% and 9.9%, respectively. Our average loan interest rate decreased during the aforesaid period, mainly affected by the COVID-19 pandemic. In response to policy requirements, national banks increased their support to SMEs. Meanwhile, the average interest rate on loans granted by our peers declined. As a result, in order to secure our asset quality and market share, as well as to maintain competitiveness in the industry, we reduced our average loan interest rate.

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

	As at 31 December 2021	As at 31 December 2020
Up to RMB500,000	**1,395**	1,367
Over RMB500,000 to RMB1 million (inclusive)	**59**	55
Over RMB1 million to RMB5 million (inclusive)	**371**	373
Over RMB5 million	**147**	133
Total number of loans and advances to customers	**1,972**	1,928

As at 31 December 2020 and 2021, the maximum loan amount of approximately 73.8% and 73.7% of loan contracts were 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 2021		As at 31 December 2020	
	RMB'000	**%**	*RMB'000*	%
Unsecured loans[(1)]	**29,527**	**1.1**	32,154	1.3
Guaranteed loans	**2,596,837**	**97.8**	2,495,163	97.5
Collateralized loans	**12,262**	**0.5**	22,352	0.9
Pledged loans	**17,064**	**0.6**	8,000	0.3
Sub-total	**2,655,690**	**100.0**	2,557,669	100.0
Accrued interest	**31,473**		29,982	
Gross loans and advances to customers	**2,687,163**		2,587,651	

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 2021		As at 31 December 2020	
	RMB'000	*%*	*RMB'000*	*%*
Within three months	**6,200**	**0.2**	25,690	1.0
Three to six months	**76,767**	**2.9**	128,908	5.0
Six months to one year	**2,559,794**	**96.4**	2,383,601	93.2
More than one year	**12,929**	**0.5**	19,470	0.8
Sub-total	**2,655,690**	**100.0**	2,557,669	100.0
Accrued interest	**31,473**		29,982	
Gross loans and advances to customers	**2,687,163**		2,587,651	

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

	As at 31 December 2021		As at 31 December 2020	
	RMB'000	*%*	*RMB'000*	*%*
Up to RMB500,000	**65,009**	**2.5**	70,863	2.8
Over RMB500,000 to RMB1 million (inclusive)	**51,531**	**1.9**	49,470	1.9
Over RMB1 million to RMB5 million (inclusive)	**1,108,050**	**41.7**	1,106,829	43.3
Over RMB5 million	**1,431,100**	**53.9**	1,330,507	52.0
Sub-total	**2,655,690**	**100.0**	2,557,669	100.0
Accrued interest	**31,473**		29,982	
Gross loans and advances to customers	**2,687,163**		2,587,651	

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 2021			
	12-month ECLs	**Lifetime ECLs non credit-impaired**	**Lifetime ECLs credit-impaired**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Gross loans and advances to customers	**2,498,812**	**64,764**	**123,587**	**2,687,163**
Less: Allowances for impairment losses	**(65,720)**	**(13,939)**	**(118,025)**	**(197,684)**
Net loans and advances to customers	**2,433,092**	**50,825**	**5,562**	**2,489,479**

	As at 31 December 2020			
	12-month ECLs	Lifetime ECLs non credit-impaired	Lifetime ECLs credit-impaired	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Gross loans and advances to customers	2,416,654	47,774	123,223	2,587,651
Less: Allowances for impairment losses	(59,336)	(18,134)	(110,067)	(187,537)
Net loans and advances to customers	2,357,318	29,640	13,156	2,400,114

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

	As at 31 December 2021	As at 31 December 2020
Impaired loan ratio[(1)]	**4.6%**	4.8%
Balance of impaired loans (RMB'000)	**123,587**	123,223
Gross loans and advances to customers (RMB'000)	**2,687,163**	2,587,651
Allowance coverage ratio[(2)]	**160%**	152%
Allowances for impairment losses[(3)] (RMB'000)	**197,684**	187,537
Balance of impaired loans (RMB'000)	**123,587**	123,223
Provision for impairment losses ratio[(4)]	**7.4%**	7.2%
Balance of overdue loans (RMB'000)	**122,990**	123,532
Gross loans and advances to customers (RMB'000)	**2,687,163**	2,587,651
Overdue loan ratio[(5)]	**4.6%**	4.8%

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

As at 31 December 2020 and 31 December 2021, our balance of impaired loans amounted to RMB123.2 million and RMB123.6 million, respectively.

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 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Unsecured loans	**13,386**	12,844
Guaranteed loans	**104,587**	90,686
Collateralized loans	**5,017**	20,002
Total overdue loans	**122,990**	123,532

We had overdue loans of RMB123.5 million and RMB123.0 million as at 31 December 2020 and 31 December 2021, respectively, accounting for 4.8% and 4.6% of our gross loan balance as at the respective dates. As at 18 March 2022, RMB8.2 million out of the overdue loans as of 31 December 2021 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:

	2021	2020
	RMB'000	*RMB'000*
Interest income from		
Loans and advances to customers	**269,323**	304,601
Cash at banks	**306**	351
Total interest income	**269,629**	304,952
Interest and commission expenses from		
Borrowings from banks	**(6,221)**	(7,800)
Borrowings from non-bank institutions	**(44,990)**	(40,802)
Lease liabilities	**(411)**	(278)
Bank charges	**(129)**	(98)
Total interest and commission expenses	**(51,751)**	(48,978)
Net interest income	**217,878**	255,974

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 2020 and 2021, our loan balance (excluding accrued interest) were RMB2,557.7 million and RMB2,655.7 million, respectively, and for the years ended 31 December 2020 and 2021, our average interest rates for loans were 12.0% and 9.9%, respectively. Our average loan interest rate decreased during the aforesaid period, mainly due to the fact that, affected by the COVID-19 pandemic, national banks increased their support to SMEs in response to policy requirements. Meanwhile, the average interest rate on loans granted by our peers declined. As a result, in order to secure our asset quality and market share, as well as to maintain competitiveness in the industry, we reduced our average loan interest rate.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions, lease liabilities as well as bank charges, were RMB49.0 million and RMB51.8 million for the years ended 31 December 2020 and 2021, respectively. Our incurred interest expenses were primarily attributable to the interest payment on bank and non-bank institutions borrowings, including borrowings from third parties 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 2020 and 2021 amounted to RMB140.0 million and RMB130.0 million, respectively. Our balance of borrowings from non-bank institutions (excluding accrued interest) amounted to RMB511.4 million and RMB510.8 million as at 31 December 2020 and 2021, respectively.

Our net interest income for the years ended 31 December 2020 and 2021 were RMB256.0 million and RMB217.9 million, respectively.

Other net income

Our other net income for the years ended 31 December 2020 and 2021 were RMB7.7 million and RMB34.1 million, respectively. Our other net income increased during the aforesaid period, mainly due to the increase in foreign exchange gains.

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 2020 and 2021, our impairment losses were RMB48.8 million and RMB21.1 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:

	2021	2020
	RMB'000	*RMB'000*
Tax and surcharge	**1,502**	1,861
Staff costs	**21,553**	18,441
Office expenditures and travel expenses	**4,242**	6,384
Operating lease charges	**73**	30
Depreciation and amortization expenses	**8,249**	7,884
Consulting and professional service fees	**9,843**	9,166
Business development expenses	**8,491**	5,316
Advertising expenses	**2,437**	1,965
Others	**1,268**	1,703
Total administrative expenses	**57,658**	52,750

Our staff costs accounted for approximately 35.0% and 37.4% of the total administrative expenses for the years ended 31 December 2020 and 2021, respectively. Our staff costs increased from RMB18.4 million for the year ended 31 December 2020 to RMB21.6 million for the year ended 31 December 2021, 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》), and such policies ceased to have effect in 2021.

Income tax

Our income taxes for the years ended 31 December 2020 and 2021 were RMB44.2 million and RMB45.5 million, respectively, and our effective tax rates were 27.3% and 26.3%, respectively.

Profit and total comprehensive income for the year

We had profit for the year of RMB117.8 million and RMB127.7 million for the years ended 31 December 2020 and 2021, 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 2021, our balance of interest-bearing borrowings was approximately RMB645.0 million (31 December 2020: RMB656.2 million).

Working Capital Management

Cash flows

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

	2021	2020
	RMB'000	*RMB'000*
Cash and cash equivalents as at 1 January	**78,229**	55,310
Net cash generated from operating activities	**70,280**	148,840
Net cash generated from/(used in) investing activities	**118**	(7,043)
Net cash used in financing activities	**(104,225)**	(118,825)
Net (decrease)/increase in cash and cash equivalents	**(33,827)**	22,972
Effect of the change of exchange rate	**(1,724)**	(53)
Cash and cash equivalents as at 31 December	**42,678**	78,229

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 method 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 2021 was RMB70.3 million. Our net cash generated from operating activities reflect: (i) our profit before tax of RMB173.2 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB21.1 million, depreciation and amortization of RMB8.2 million, interest expenses of RMB51.6 million, foreign exchange gains of RMB13.8 million, net gains on disposal of fixed assets of RMB0.1 million; (ii) the effect of changes in working capital, primarily including the increase in total loans and advances to customers of RMB108.2 million, the decrease in interest receivables and other assets of RMB0.5 million, and the decrease in accruals and other payables of RMB11.8 million; and (iii) income tax paid of RMB50.4 million.

Net cash used in investing activities

For the year ended 31 December 2021, our net cash generated from investing activities was RMB0.1 million. Our net cash used in investing activities mainly consisted of: (i) gains from disposal of investment amounted to RMB1.0 million; (ii) payment for the purchase of fixed assets of RMB1.2 million, partially offset by gains from disposal of fixed assets of RMB0.3 million.

Net cash used in financing activities

For the year ended 31 December 2021, our net cash used in financing activities was RMB104.2 million. Our net cash used in financing activities mainly consisted of (i) repayment of interest-bearing borrowings amounted to RMB507.7 million, partially offset by the financing from interest-bearing borrowings received of RMB497.0 million; (ii) payment of interest on borrowings amounted to RMB37.5 million; (iii) payment of lease charge amounted to RMB3.4 million; and (iv) payment of dividend to non-controlling shareholders of RMB10.4 million, payment to non-controlling shareholders for withdrawal of investment amounted to RMB40.0 million and payment for acquisition of non-controlling interests of RMB2.2 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 2020 and 2021, the balance of cash and cash equivalents amounted to RMB78.2 million and RMB42.7 million, respectively.

Cash and cash equivalents

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

	As at 31 December 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Cash in hand	**3**	3
Cash at banks	**42,673**	77,498
Other currencies in cash	**2**	728
Cash and cash equivalents	**42,678**	78,229

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 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Corporate loans	**1,016,232**	994,721
Retail loans	**1,611,615**	1,535,190
Internet loans	**27,843**	27,758
Sub-total	**2,655,690**	2,557,669
Accrued interest	**31,473**	29,982
Gross loans and advances to customers	**2,687,163**	2,587,651
Total allowances for impairment losses	**(197,684)**	(187,537)
Net loans and advances to customers	**2,489,479**	2,400,114

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 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Within three months	**6,200**	25,690
Three to six months	**76,767**	128,908
Six months to one year	**2,559,794**	2,383,601
More than one year	**12,929**	19,470
Sub-total	**2,655,690**	2,557,669
Accrued interest	**31,473**	29,982
Gross loans and advances to customers	**2,687,163**	2,587,651

As at 31 December 2020 and 2021, our overdue loan amounted to RMB123.5 million and RMB123.0 million, respectively, accounting for approximately 4.8% and 4.6% 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 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Unsecured loans[(1)]	**29,527**	32,154
Guaranteed loans	**2,596,837**	2,495,163
Collateralized loans	**12,262**	22,352
Pledged loans	**17,064**	8,000
Sub-total	**2,655,690**	2,557,669
Accrued interest	**31,473**	29,982
Gross loans and advances to customers	**2,687,163**	2,587,651

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 97.6% and 97.8% of our gross loans and advances to customers (excluding accrued interest) as at 31 December 2020 and 2021, 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 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Prepayment	**822**	687
Others	**366**	1,442
Total other assets	**1,188**	2,129

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 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Staff costs payable	**5,529**	4,382
Value-added tax payable	**6,479**	1,655
Tax and surcharges and other taxation payable	**1,984**	439
Dividends payable to non-controlling interest	**—**	7,164
Other payables	**14,228**	32,677
Total accruals and other payables	**28,220**	46,317

Current taxation

Our current taxation refers to our income tax payable, amounting to RMB46.1 million and RMB44.4 million as at 31 December 2020 and 2021, respectively.

Capital commitments

As of 31 December 2021, we have no capital commitment (2020: Nil).

Key Financial Indicators

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

	For the year ended 31 December 2021	For the year ended 31 December 2020
Return on weighted average equity (%)	**6.5**	6.5
Average return on assets (%)[(1)]	**4.9**	4.6

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 average return on assets increased slightly mainly due to the increase in profit for the year ended 31 December 2021 as compared to the year ended 31 December 2020.

Gearing Ratio

	For the year ended 31 December 2021	For the year ended 31 December 2020
Gearing Ratio (%)[(1)]	**32.3**	33.1

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.

Our gearing ratio decreased, which was mainly due to the fact that total equity attributable to equity shareholders as of 31 December 2021 increased as compared to 31 December 2020.

Related Party Transactions

For the year ended 31 December 2021, 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 2021, the amount of guarantee provided by Mr. Yu Yin and other related parties amounted to RMB329.8 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the said provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

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 2021, 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 RMB3.1 million. The entering into of the lease agreements allow the Company and Jinhui Micro-finance to satisfy their operational needs. Utilities and entertainment fees amounted to RMB1.4 million were paid to Zuoli Holdings and is subsidiaries. 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 2021 and 10 July 2021.

Save as disclosed above, during the year ended 31 December 2021, 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 2021 *RMB'000*	As at 31 December 2020 *RMB'000*
Interest-bearing borrowings	**644,973**	656,197

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

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2021, we did not have any off-balance sheet arrangements (2020: nil).

EMPLOYMENT AND EMOLUMENTS

As at 31 December 2021, the Company had approximately 118 employees (2020: 121). 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 2021.

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 2021.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2021, The Group had no share pledge (2020: the Group pledged 35% of the equity interest of Jinhui Micro-finance held by the Company as a guarantee for the financing of Jinhui Micro-finance).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

Other than the bank loans we obtain from commercial banks, we may also consider conducting financing on the platform of 浙江金融資產交易中心 (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 2021, the Group did not have any significant contingent liabilities (2020: nil).

PROSPECTS

With the establishment of China Micro-credit Companies Association (中國小額貸款公司協會) and 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.

In terms of our major market of offline business, Zhejiang province is the important birthplace of President Xi Jinping's thought on ecological civilization, and according to the Opinion on Supporting the High Quality Development and the Construction of a Common Prosperity Demonstration Zone in Zhejiang (《關於支持浙江高質量發展建設共同富裕示範區的意見》) ("Opinion") issued by the State Council in May 2021, Zhejiang Province was endowed an important demonstration reform task of realizing common prosperity and a series of important decisions and deployment were proposed, which will be more favorable for the overall coordinated development of Zhejiang Province in terms of economy, society, culture, ecology, etc.

Meanwhile, 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, and is one of the best cities in Zhejiang Province and even nationwide in respect of financial ecological environment, which brings us a better opportunity to explore green development. Deqing was placed among the nation's top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). A number of high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, thus help cultivating local financial services industry. In addition, Deqing has been designated as a "technological outstanding county (科技強縣)" as well as a "financial innovation demonstration county (金融創新示範縣)" by the Zhejiang provincial government. Therefore, we expect that Deqing will continue to enjoy economic stability and provide us with a relatively conductive market environment.

Under the opportunity of constructing a common prosperity demonstration zone in Zhejiang province and led by the concept of "lucid waters and lush mountains are invaluable assets", we seize the opportunity of reform and innovation to actively explore a sustainable development road of green credit and 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. Currently, we have been officially listed as the first pilot unit of green micro-finance company in Huzhou since April 2020. As the main drafter, we participated in the formulation of "Green Micro-finance Company Construction and Evaluation Standard" (Zhejiang Province Huzhou Local Standard) (《綠色小額貸款公司建設與評價規範》(浙江省湖州市地方標準)), which has been officially issued and implemented in June 2020. The pilot construction of green micro-finance and implementation of its standards will help the Group to (i) further discover the potential customers of green micro-finance; (ii) better serve the growth of AFR (三農), as well as small and micro enterprises which are low-carbon and environment-friendly; and (iii) further increase the market share. In addition, to better discover and explore green finance market and achieve the goal of sustainable operation and development of inclusive and green finance, we cooperated with institutions including DEG, a wholly-owned subsidiary of KFW Bankengruppe, GCPF (global climate partner fund), which introduced special funds for the Company's green business development. They also inspired the Company with international-leading green finance ideas and provided technological support, which better directed our investment in energy-saving, environment-friendly and renewable energy industry projects, assisting the development or optimization of low-carbon and environment-friendly products. As a result, we can make our contribution to the achievement of low-carbon new development landscape of "30.60" in the PRC through better serving our green finance customers.

USE OF PROCEEDS

The H Shares of the Company became listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 2021, 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 2021.

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 2021.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.05 per share for the year ended 31 December 2021 to Shareholders whose names appear on the Company's register of members on Monday, 11 July 2022 (the "**Proposed Final Dividend**"). Subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Thursday, 23 June 2022 (the "**AGM**"), the Proposed Final Dividend is expected to be paid on or around Friday, 12 August 2022. (2020: 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 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 Thursday, 23 June 2022. 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 Tuesday, 24 May 2022 to Thursday, 23 June 2022, 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 Thursday, 23 June 2022 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 Monday, 23 May 2022.

The payment of the Proposed Final Dividend is subject to the approval of the Shareholders at the AGM. For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from Tuesday, 5 July 2022 to Monday, 11 July 2022 (both days inclusive), during which period no transfer of H Shares of the Company will be registered. In order to be entitled to the Proposed Final Dividend, unregistered holders of H Shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged 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, for registration no later than 4:30 p.m. on Monday, 4 July 2022.

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 2021. 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.zlkcxd.cn). The annual report for the year ended 31 December 2021 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, 18 March 2022

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*