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佐力科創小額貸款股份有限公司
(Zuoli Kechuang Micro-finance Company Limited*)

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

(Stock Code: 6866)

2022 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 2022, 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 2022

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

| | <i>Note</i> | 2022 <i>RMB’000</i> | 2021 <i>RMB’000</i> |
|---|-------------|-------------------------------|------------------------|
| Interest income | | 250,458 | 269,629 |
| Interest and commission expenses | | (52,123) | (51,751) |
| Net interest income | 2 | 198,335 | 217,878 |
| Other net income | 3 | 9,930 | 34,066 |
| Impairment losses | 4 | (22,254) | (21,123) |
| Administrative expenses | | (53,416) | (57,658) |
| Profit before taxation | 5 | 132,595 | 173,163 |
| Income tax | 6 | (35,899) | (45,465) |
| Profit and total comprehensive income for the year | | <u>96,696</u> | <u>127,698</u> |
| Attributable to: | | | |
| Equity shareholders of the Company | | 93,340 | 116,489 |
| Non-controlling interests | | <u>3,356</u> | <u>11,209</u> |
| Profit for the year | | <u>96,696</u> | <u>127,698</u> |
| Earnings per share | | | |
| Basic and diluted (RMB) | 9 | <u>0.08</u> | <u>0.10</u> |

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

(Expressed in RMB'000, unless otherwise stated)

| | | 31 December 2022 | 31 December 2021 |
|--|-------------|-----------------------------|-------------------------|
| | <i>Note</i> | RMB'000 | RMB'000 |
| Assets | | | |
| Cash and cash equivalents | 10(a) | 16,595 | 42,678 |
| Interest receivables | | 163 | 177 |
| Loans and advances to customers | 11 | 2,654,305 | 2,489,479 |
| Financial assets measured at fair value through profit or loss | 12 | — | 10 |
| Intangible assets | 13 | — | 519 |
| Goodwill | 14 | 18,776 | 19,899 |
| Fixed assets | 16 | 37,504 | 45,080 |
| Deferred tax assets | 21(b) | 58,814 | 52,182 |
| Other assets | 17 | 1,481 | 1,188 |
| Total assets | | <u>2,787,638</u> | <u>2,651,212</u> |
| Liabilities | | | |
| Interest-bearing borrowings | 18 | 759,932 | 644,973 |
| Lease liabilities | 19 | 1,946 | 4,995 |
| Accruals and other payables | 20 | 21,280 | 28,220 |
| Current taxation | 21(a) | 42,958 | 44,398 |
| Total liabilities | | <u>826,116</u> | <u>722,586</u> |
| NET ASSETS | | <u>1,961,522</u> | <u>1,928,626</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 22 | 1,180,000 | 1,180,000 |
| Reserves | | 718,488 | 684,148 |
| Total equity attributable to equity shareholders of the Company | | 1,898,488 | 1,864,148 |
| Non-controlling interests | 15 | 63,034 | 64,478 |
| TOTAL EQUITY | | <u>1,961,522</u> | <u>1,928,626</u> |

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(Expressed in RMB'000, unless otherwise stated)

| | Attributable to equity shareholders of the Company | | | | | Total | Non-controlling interests | Total equity |
|---|--|---------------------|----------------------|----------------------|-----------------------|-------------------------|---------------------------|-------------------------|
| | Share capital | Capital reserve | Surplus reserve | General risk reserve | Retained profits | | | |
| | 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 2021 and 1 January 2022 | <u>1,180,000</u> | <u>1,427</u> | <u>48,794</u> | <u>65,375</u> | <u>568,552</u> | <u>1,864,148</u> | <u>64,478</u> | <u>1,928,626</u> |
| Changes in equity for year ended 31 December 2022: | | | | | | | | |
| Profit and total comprehensive income for the year | — | — | — | — | 93,340 | 93,340 | 3,356 | 96,696 |
| Appropriation to surplus reserve | — | — | 667 | — | (667) | — | — | — |
| Appropriation to general risk reserve | — | — | — | 3,941 | (3,941) | — | — | — |
| Dividends to non-controlling shareholders approved in respect of the previous year (Note 22(b)) | — | — | — | — | — | — | (4,800) | (4,800) |
| Dividends approved in respect of the previous year (Note 22(b)) | — | — | — | — | (59,000) | (59,000) | — | (59,000) |
| Balance at 31 December 2022 | <u>1,180,000</u> | <u>1,427</u> | <u>49,461</u> | <u>69,316</u> | <u>598,284</u> | <u>1,898,488</u> | <u>63,034</u> | <u>1,961,522</u> |
| Balance at 31 December 2020 and 1 January 2021 | <u>1,180,000</u> | <u>980</u> | <u>45,933</u> | <u>61,635</u> | <u>458,664</u> | <u>1,747,212</u> | <u>101,716</u> | <u>1,848,928</u> |
| 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 | <u>1,180,000</u> | <u>1,427</u> | <u>48,794</u> | <u>65,375</u> | <u>568,552</u> | <u>1,864,148</u> | <u>64,478</u> | <u>1,928,626</u> |

The accompanying notes form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2022

(Expressed in RMB'000, unless otherwise stated)

| | <i>Note</i> | 2022 RMB'000 | 2021 RMB'000 |
|---|--------------|-------------------------------|-------------------------|
| Operating activities | | | |
| Cash generated from operations | <i>10(b)</i> | 38,508 | 120,662 |
| PRC income tax paid | <i>21(a)</i> | (43,971) | (50,382) |
| Net cash (used in)/generated from operating activities | | <u>(5,463)</u> | <u>70,280</u> |
| Investing activities | | | |
| Proceeds from disposal of investments | | 10 | 1,000 |
| Proceeds from disposal of fixed assets | | — | 282 |
| Payment for the purchase of fixed assets | | (36) | (1,164) |
| Net cash (used in)/generated from investing activities | | <u>(26)</u> | <u>118</u> |
| Financing activities | | | |
| Proceeds from bank loans | <i>10(c)</i> | 120,000 | 130,000 |
| Proceeds from borrowings from third parties | <i>10(c)</i> | 193,753 | 231,910 |
| Proceeds from borrowings from Euro zone | <i>10(c)</i> | 370,824 | 135,078 |
| Repayment of bank loans | <i>10(c)</i> | (130,000) | (140,000) |
| Repayment of borrowings from third parties | <i>10(c)</i> | (199,760) | (367,760) |
| Repayment of borrowings from Euro zone | <i>10(c)</i> | (270,153) | — |
| Interest paid | <i>10(c)</i> | (34,209) | (37,518) |
| Capital element of lease rentals paid | <i>10(c)</i> | (3,344) | (2,960) |
| Interest element of lease rentals paid | <i>10(c)</i> | (225) | (411) |
| Capital withdrawal paid to non-controlling shareholders | <i>15</i> | — | (40,000) |
| Payment for acquisition of interest in subsidiary from non-controlling shareholders | <i>15</i> | (2,600) | (2,200) |
| Dividends paid to equity shareholders of the Company | <i>22(b)</i> | (59,000) | — |
| Dividends paid to non-controlling shareholders | <i>22(b)</i> | (4,800) | (10,364) |
| Net cash used in financing activities | | <u>(19,514)</u> | <u>(104,225)</u> |
| Net decrease in cash and cash equivalents | | (25,003) | (33,827) |
| Cash and cash equivalents at 1 January | <i>10(a)</i> | 42,678 | 78,229 |
| Effect of foreign exchange rate changes | | <u>(1,080)</u> | <u>(1,724)</u> |
| Cash and cash equivalents at 31 December | <i>10(a)</i> | <u>16,595</u> | <u>42,678</u> |

The accompanying notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2022 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 HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss.

The amendments do not have a material impact on these financial statements as the Group does not sell items produced before an item of property, plant and equipment is available for use.

Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The amendments will not have any material impact on the financial position and the financial result of the Group.

(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, property pre-sale proceeds held by solicitor that are held for meeting short-term cash commitments, 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:

| | 2022 | 2021 |
|--|------------------------|-----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Interest income arising from | | |
| Loans and advances to customers | 250,369 | 269,323 |
| Cash at banks | 89 | 306 |
| | <u>250,458</u> | <u>269,629</u> |
| Interest and commission expenses arising from | | |
| Borrowings from non-bank institutions | (46,122) | (44,990) |
| Borrowings from banks | (5,666) | (6,221) |
| Lease liabilities | (225) | (411) |
| Bank charges | (110) | (129) |
| | <u>(52,123)</u> | <u>(51,751)</u> |
| Net interest income | <u>198,335</u> | <u>217,878</u> |

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's net interest income during the years ended 31 December 2022 and 2021. Details of concentration of credit risk are set out in Note 23(a).

For the years ended 31 December 2022 and 2021, 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

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|-------------------------------------|------------------------|------------------------|
| Government grants (<i>Note</i>) | 24,100 | 20,203 |
| Exchange (losses)/gains | (14,168) | 13,851 |
| Donations | (8) | (120) |
| Gains from disposal of fixed assets | — | 124 |
| Others | 6 | 8 |
| Total | 9,930 | 34,066 |

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

4 IMPAIRMENT LOSSES

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Loans and advances to customers (<i>Note 11</i>) | 17,835 | 18,877 |
| Interest receivables | 3,296 | 241 |
| Goodwill (<i>Note 14</i>) | 1,123 | 1,041 |
| Other assets | — | 964 |
| Total | 22,254 | 21,123 |

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|-------------------------------------|------------------------|------------------------|
| Salaries, bonuses and allowance | 15,310 | 16,171 |
| Contribution to retirement scheme | 935 | 1,329 |
| Social insurance and other benefits | 3,104 | 4,053 |
| Total | 19,349 | 21,553 |

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

| | 2022 RMB'000 | 2021 RMB'000 |
|-----------------------------------|-----------------|-----------------|
| Depreciation expenses (Note 16) | | |
| — owned fixed assets | 4,646 | 4,893 |
| — right-of-used assets | 2,966 | 2,739 |
| Amortization of intangible assets | 519 | 617 |
| Operating lease charges | 19 | 73 |
| Auditors' remuneration | | |
| — audit services | 3,200 | 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:

| | 2022 RMB'000 | 2021 RMB'000 |
|---|----------------------|----------------------|
| Current tax (Note 21(a)) | | |
| Provision for PRC income tax for the year | 42,531 | 48,702 |
| Deferred tax (Note 21(b)) | | |
| Origination and reversal of temporary differences | <u>(6,632)</u> | <u>(3,237)</u> |
| Total | <u>35,899</u> | <u>45,465</u> |

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

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------------|-----------------------|
| Profit before taxation | <u>132,595</u> | <u>173,163</u> |
| Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (Notes) | 33,149 | 43,291 |
| Under-provision in respect of prior years | 190 | — |
| Effect of non-deductible expenses | <u>2,560</u> | <u>2,174</u> |
| Actual income tax expense | <u>35,899</u> | <u>45,465</u> |

Notes:

- (i) The Company and the subsidiaries of the Group incorporated in the PRC are subject to PRC income tax at the statutory tax rate of 25% for the year ended 31 December 2022 (2021: 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 2022 (2021: 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:

| | 2022 | | | | |
|---|----------------------------|--|---------------------------|----------------------------------|------------------|
| | 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 | 560 | 37 | 120 | 723 |
| Executive directors | | | | | |
| Zheng Xuegen (鄭學根) | 6 | 373 | 37 | 120 | 536 |
| Yang Sheng (楊晟) | 6 | 573 | 32 | 120 | 731 |
| Hu Fangfang (胡芳芳) | 6 | 420 | 35 | 120 | 581 |
| Non-executive director | | | | | |
| Pan Zhongmin (潘忠敏) | 6 | — | — | — | 6 |
| Independent non-executive directors | | | | | |
| Chan Kin Man (陳健民) | 134 | — | — | — | 134 |
| Zhao Xuqiang (趙旭強) | 100 | — | — | — | 100 |
| Yang Jie (楊婕) | 100 | — | — | — | 100 |
| Supervisors | | | | | |
| Zhou Mingwan (周明萬) | 6 | — | — | — | 6 |
| Wang Suliang (王蘇良) (resigned on 11 March 2022) | 1 | 52 | 4 | — | 57 |
| Wang Peijun (王培軍) | 6 | — | — | — | 6 |
| Chen Qi (陳琦) (appointed on 11 March 2022) | 5 | 245 | 14 | 16 | 280 |
| | <u>382</u> | <u>2,223</u> | <u>159</u> | <u>496</u> | <u>3,260</u> |

| | 2021 | | | | |
|--|--------------------------------------|---|-------------------------------------|--|-------------------------|
| | Director's Fees <i>RMB'000</i> | Salaries, allowances and other benefits in kind <i>RMB'000</i> | Pension scheme <i>RMB'000</i> | Discretionary bonuses <i>RMB'000</i> | Total <i>RMB'000</i> |
| Chairman | | | | | |
| Yu Yin (俞寅) | 6 | 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 | | | | | |
| Zhou Mingwan (周明萬) | 6 | — | — | — | 6 |
| Wang Suliang (王蘇良) | 6 | 280 | 22 | 130 | 438 |
| Wang Peijun (王培軍) | 6 | — | — | — | 6 |
| | <u>371</u> | <u>2,104</u> | <u>122</u> | <u>638</u> | <u>3,235</u> |

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2021: four) are directors or supervisors of the Group for the year ended 31 December 2022, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other individual are as follow:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|-------------------------------|------------------------|------------------------|
| Salaries and other emoluments | 363 | 340 |
| Discretionary bonuses | 120 | 120 |
| Pension scheme | 25 | 22 |
| | <u>508</u> | <u>482</u> |

The emoluments of the one (2021: one) individual with the highest emoluments are within the following bands:

| | 2022 | 2021 |
|-------------------------|----------------------------------|--------------------------|
| | Number of individuals | Number of individuals |
| <i>Hong Kong dollar</i> | | |
| 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 2022 and 2021.

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:

| | 2022 | 2021 |
|---|-------------------------|------------------|
| Profit attributable to the equity shareholders of the Company (RMB'000) | 93,340 | 116,489 |
| Weighted average number of ordinary shares in issue ('000) | <u>1,180,000</u> | <u>1,180,000</u> |
| Basic earnings per share (RMB) | <u>0.08</u> | <u>0.10</u> |

(a) Weighted average number of ordinary shares

| | 2022 | 2021 |
|---|-------------------------|------------------|
| | '000 | '000 |
| Issued ordinary shares at 1 January | <u>1,180,000</u> | <u>1,180,000</u> |
| Weighted average number of ordinary shares at 31 December | <u>1,180,000</u> | <u>1,180,000</u> |

There were no dilutive potential ordinary shares during the years ended 31 December 2022 and 2021, 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 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|---|--------------------------------|
| Cash in hand | 2 | 3 |
| Cash at banks | 16,587 | 42,673 |
| Others | <u>6</u> | <u>2</u> |
| Cash and cash equivalents in the cash flow statement | <u>16,595</u> | <u>42,678</u> |

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

| | 2022 RMB'000 | 2021 RMB'000 |
|--|-------------------------|-----------------|
| Profit before taxation | 132,595 | 173,163 |
| Adjustment for: | | |
| Impairment losses | 22,254 | 21,123 |
| Depreciation and amortisation | 8,131 | 8,249 |
| Exchange losses/(gains) | 14,168 | (13,851) |
| Interest expenses | 52,013 | 51,622 |
| Net gains on disposal of fixed assets | <u>—</u> | <u>(124)</u> |
| Changes in working capital: | | |
| Increase in loans and advances to customers | (182,661) | (108,242) |
| (Increase)/decrease in interest receivables and other assets | (3,573) | 546 |
| Decrease in accruals and other payables | <u>(4,419)</u> | <u>(11,824)</u> |
| Cash generated from operations | <u>38,508</u> | <u>120,662</u> |

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

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

| | Bank loans <i>RMB'000</i> | Borrowings from third parties <i>RMB'000</i> | Convertible notes <i>RMB'000</i> | Borrowings from Euro zone <i>RMB'000</i> | Lease liabilities <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|------------------------------|---|--|---|--|-------------------------|
| At 1 January 2022 | 130,157 | 201,003 | — | 313,813 | 4,995 | 649,968 |
| Changes from financing cash flow | | | | | | |
| Proceeds from bank loans | 120,000 | — | — | — | — | 120,000 |
| Repayment of bank loans | (130,000) | — | — | — | — | (130,000) |
| Proceeds from borrowings from third parties | — | 193,753 | — | — | — | 193,753 |
| Repayment of borrowings from third parties | — | (199,760) | — | — | — | (199,760) |
| Proceeds from borrowings from Euro zone | — | — | — | 370,824 | — | 370,824 |
| Repayment of borrowings from Euro zone | — | — | — | (270,153) | — | (270,153) |
| Capital element of lease rentals paid | — | — | — | — | (3,344) | (3,344) |
| Interest element of lease rentals paid | — | — | — | — | (225) | (225) |
| Interest paid | (5,680) | (11,016) | — | (17,513) | — | (34,209) |
| Total changes from financing cash flows | (15,680) | (17,023) | — | 83,158 | (3,569) | 46,886 |
| Exchange adjustments | — | — | — | 13,088 | — | 13,088 |
| Other changes: | | | | | | |
| Interest expense (<i>Note 2</i>) | 5,666 | 16,674 | — | 29,448 | 225 | 52,013 |
| Commission payables of obtaining interest-bearing borrowings | — | (73) | — | (299) | — | (372) |
| Value-added tax | — | — | — | — | 295 | 295 |
| Increase in lease liabilities from entering into new leases during the year | — | — | — | — | — | — |
| Total other changes | 5,666 | 16,601 | — | 29,149 | 520 | 51,936 |
| At 31 December 2022 | 120,143 | 200,581 | — | 439,208 | 1,946 | 761,878 |

| | Bank loans RMB'000 | Borrowings from third parties RMB'000 | Convertible notes RMB'000 | Borrowings from Euro zone RMB'000 | Lease liabilities RMB'000 | Total 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 | <u>(6,256)</u> | <u>(12,808)</u> | <u>(5,599)</u> | <u>(12,855)</u> | <u>—</u> | <u>(37,518)</u> |
| Total changes from financing cash flows | <u>-----</u> (16,256) | <u>-----</u> (68,658) | <u>-----</u> (85,599) | <u>-----</u> 122,223 | <u>-----</u> (3,371) | <u>-----</u> (51,661) |
| Exchange adjustments | — | — | — | (15,576) | — | (15,576) |
| Other changes: | | | | | | |
| Interest expense (<i>Note 2</i>) | 6,221 | 19,809 | 7,812 | 17,369 | 411 | 51,622 |
| Commission payables of obtaining interest-bearing borrowings | — | 661 | — | 770 | — | 1,431 |
| Value-added tax | — | — | — | — | 278 | 278 |
| Increase in lease liabilities from entering into new leases during the year | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>818</u> | <u>818</u> |
| Total other changes | <u>-----</u> 6,221 | <u>-----</u> 20,470 | <u>-----</u> 7,812 | <u>-----</u> 18,139 | <u>-----</u> 1,507 | <u>-----</u> 54,149 |
| At 31 December 2021 | <u>-----</u> 130,157 | <u>-----</u> 201,003 | <u>-----</u> — | <u>-----</u> 313,813 | <u>-----</u> 4,995 | <u>-----</u> 649,968 |

(d) **Total cash outflow for leases:**

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

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--------------------------------------|-------------------------------|------------------------|
| Within operating cash flows | 19 | 73 |
| Within financing cash flows | 3,569 | 3,371 |
| Cash flows of rentals paid on leases | 3,588 | 3,444 |

These amounts relate to the following:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--------------------|-------------------------------|------------------------|
| Lease rentals paid | 3,588 | 3,444 |

11 LOANS AND ADVANCES TO CUSTOMERS

(a) **Analysed by nature**

| | 31 December 2022 <i>RMB'000</i> | 31 December 2021 <i>RMB'000</i> |
|--|---|---------------------------------------|
| Corporate loans | 1,110,479 | 1,016,232 |
| Retail loans | 1,703,428 | 1,611,615 |
| Micro-loans granted online | 26,915 | 27,843 |
| Sub-total | 2,840,822 | 2,655,690 |
| Accrued interest | 22,934 | 31,473 |
| Gross loans and advances to customers | 2,863,756 | 2,687,163 |
| Less: Allowances for impairment losses | (209,451) | (197,684) |
| Net loans and advances to customers | 2,654,305 | 2,489,479 |

(b) Analysed by type of collateral

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|--------------------------------|--------------------------------|
| Unsecured loans | 27,917 | 29,527 |
| Guaranteed loans | 2,782,373 | 2,596,837 |
| Collateralized loans | 10,542 | 12,262 |
| Pledged loans | <u>19,990</u> | <u>17,064</u> |
| Sub-total | <u>2,840,822</u> | <u>2,655,690</u> |
| Accrued interest | <u>22,934</u> | <u>31,473</u> |
| Gross loans and advances to customers | <u>2,863,756</u> | <u>2,687,163</u> |
| Less: Allowances for impairment losses | <u>(209,451)</u> | <u>(197,684)</u> |
| Net loans and advances to customers | <u>2,654,305</u> | <u>2,489,479</u> |

(c) Analysed by industry sector

| | 31 December 2022 | | 31 December 2021 | |
|---|------------------|-------------|------------------|-------------|
| | RMB'000 | % | RMB'000 | % |
| Wholesale and retail | 588,900 | 21% | 529,768 | 20% |
| Manufacturing | 91,979 | 3% | 88,864 | 3% |
| Construction | 132,100 | 4% | 109,300 | 4% |
| Agriculture, forestry, animal husbandry and fishery | 500 | 1% | 500 | 1% |
| Others | <u>297,000</u> | <u>10%</u> | <u>287,800</u> | <u>11%</u> |
| Corporate loans | 1,110,479 | 39% | 1,016,232 | 39% |
| Retail loans | 1,703,428 | 60% | 1,611,615 | 60% |
| Micro-loans granted online | <u>26,915</u> | <u>1%</u> | <u>27,843</u> | <u>1%</u> |
| Sub-total | <u>2,840,822</u> | <u>100%</u> | <u>2,655,690</u> | <u>100%</u> |
| Accrued interest | <u>22,934</u> | | <u>31,473</u> | |
| Gross loans and advances to customers | 2,863,756 | | 2,687,163 | |
| Less: Allowances for impairment losses | <u>(209,451)</u> | | <u>(197,684)</u> | |
| Net loans and advances to customers | <u>2,654,305</u> | | <u>2,489,479</u> | |

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

| | 31 December 2022 | | | | Total <i>RMB'000</i> |
|----------------------|--|--|--|--|-------------------------|
| | Overdue within 3 months (inclusive) <i>RMB'000</i> | Overdue more than 3 months to 6 months (inclusive) <i>RMB'000</i> | Overdue more than 6 months to one year (inclusive) <i>RMB'000</i> | Overdue more than one year <i>RMB'000</i> | |
| Unsecured loans | 246 | 625 | 650 | 12,148 | 13,669 |
| Guaranteed loans | 11,203 | 10,695 | 40,949 | 49,578 | 112,425 |
| Collateralized loans | 500 | — | 2,980 | 4,012 | 7,492 |
| Total | <u>11,949</u> | <u>11,320</u> | <u>44,579</u> | <u>65,738</u> | <u>133,586</u> |

| | 31 December 2021 | | | | Total <i>RMB'000</i> |
|----------------------|--|--|--|--|-------------------------|
| | Overdue within 3 months (inclusive) <i>RMB'000</i> | Overdue more than 3 months to 6 months (inclusive) <i>RMB'000</i> | Overdue more than 6 months to one year (inclusive) <i>RMB'000</i> | Overdue more than one year <i>RMB'000</i> | |
| 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 | <u>32,589</u> | <u>2,070</u> | <u>40,941</u> | <u>47,390</u> | <u>122,990</u> |

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

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

| | 31 December 2022 | | | Total <i>RMB'000</i> |
|--|------------------------------------|---|---|-------------------------|
| | 12-month ECLs <i>RMB'000</i> | Lifetime ECLs non credit- impaired <i>RMB'000</i> | Lifetime ECLs credit- impaired <i>RMB'000</i> | |
| Gross loans and advances to customers | 2,638,388 | 91,026 | 134,342 | 2,863,756 |
| Less: Allowances for impairment losses | <u>(62,864)</u> | <u>(17,883)</u> | <u>(128,704)</u> | <u>(209,451)</u> |
| Net loans and advances to customers | <u>2,575,524</u> | <u>73,143</u> | <u>5,638</u> | <u>2,654,305</u> |

| | 31 December 2021 | | | Total <i>RMB'000</i> |
|--|------------------------------------|---|---|-------------------------|
| | 12-month ECLs <i>RMB'000</i> | Lifetime ECLs non credit- impaired <i>RMB'000</i> | Lifetime ECLs credit- impaired <i>RMB'000</i> | |
| Gross loans and advances to customers | 2,498,812 | 64,764 | 123,587 | 2,687,163 |
| Less: Allowances for impairment losses | <u>(65,720)</u> | <u>(13,939)</u> | <u>(118,025)</u> | <u>(197,684)</u> |
| Net loans and advances to customers | <u>2,433,092</u> | <u>50,825</u> | <u>5,562</u> | <u>2,489,479</u> |

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

| | 2022 | | | Total <i>RMB'000</i> |
|---|------------------------------------|---|---|-------------------------|
| | 12-month ECLs <i>RMB'000</i> | Lifetime ECLs non credit- impaired <i>RMB'000</i> | Lifetime ECLs credit- impaired <i>RMB'000</i> | |
| At 1 January 2022 | 65,720 | 13,939 | 118,025 | 197,684 |
| Transferred to | | | | |
| — Lifetime ECLs non credit-impaired | (1) | 1 | — | — |
| — Lifetime ECLs credit-impaired | (1,008) | (602) | 1,610 | — |
| (Reversal)/charge for the year | (1,847) | 4,545 | 15,137 | 17,835 |
| Write off | — | — | (8,466) | (8,466) |
| Recoveries of loans and advances written off in previous years | <u>—</u> | <u>—</u> | <u>2,398</u> | <u>2,398</u> |
| At 31 December 2022 | <u>62,864</u> | <u>17,883</u> | <u>128,704</u> | <u>209,451</u> |

| | 2021 | | | Total RMB'000 |
|---|-----------------------------|--|--|------------------|
| | 12-month ECLs RMB'000 | Lifetime ECLs non credit- impaired RMB'000 | Lifetime ECLs credit- impaired 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 | <u>65,720</u> | <u>13,939</u> | <u>118,025</u> | <u>197,684</u> |

(g) **Analysed by credit quality**

| | 2022 RMB'000 |
|---|------------------|
| Gross balance of loans and advances to customers that are assessed for 12-month ECLs | |
| — Neither overdue nor credit-impaired | <u>2,638,388</u> |
| Sub-total | <u>2,638,388</u> |
| Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired | |
| — Overdue but not credit-impaired | 749 |
| — Neither overdue nor credit-impaired | <u>90,277</u> |
| Sub-total | <u>91,026</u> |
| Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired | |
| — Overdue and credit-impaired | 132,837 |
| — Not overdue but credit-impaired | <u>1,505</u> |
| Sub-total | <u>134,342</u> |
| Less: Allowances for impairment losses | <u>(209,451)</u> |
| Net value | <u>2,654,305</u> |

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 |

12 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|---------------------------|--------------------------------|--------------------------------|
| Wealth management product | — | 10 |
| | — | 10 |

Wealth management product was issued by a bank in the PRC, which was an unlisted investment. This fund has been settled during the year ended 31 December 2022.

13 INTANGIBLE ASSETS

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|-------------------|---|--------------------------------|
| Computer software | <u>—</u> | <u>519</u> |

14 GOODWILL

Cost:

At 1 January and 31 December 2022 22,502

Accumulated impairment losses:

At 1 January 2022 (2,603)
 Impairment loss (1,123)

At 31 December 2022 (3,726)

Carrying amount:

At 31 December 2022 18,776

At 31 December 2021 19,899

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

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|---|---|--------------------------------|
| Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) (“Jinhui Micro-finance”) | 18,005 | 18,005 |
| Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd. (杭州市高新區(濱江)興耀普匯小額貸款有限公司) (“Xingyao Micro-finance”) | <u>771</u> | <u>1,894</u> |
| | <u>18,776</u> | <u>19,899</u> |

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

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

Impairment test

The recoverable amount of the acquired subsidiaries is greater of its fair value less costs of disposal and value in use. For Jinhui Micro-finance and Xingyao Micro-finance, value-in-use is greater than the fair value less costs of disposal. In assessing value in use, the calculations of the acquired subsidiaries are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond five-year period of Jinhui Micro-finance and Xingyao Micro-finance are extrapolated using an estimated weighted average growth rate of 3.0% 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 9.42% and 12.97% by Jinhui Micro-finance and Xingyao Micro-finance respectively at 31 December 2022 (2021: Jinhui Micro-finance: 10.81%; Xingyao Micro-finance: 11.67%). The discounted rates are pre-tax and reflect specific risks relating to the acquired subsidiaries.

The impairment loss of RMB1.12 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 RMB148.2 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.

| Name of Companies | Place of incorporation and business | Paid up capital | Proportion of ownership interest at | | Principal activities |
|--|-------------------------------------|-----------------|---------------------------------------|---------------------|----------------------|
| | | | 31 December 2022 and 31 December 2021 | | |
| | | | Group's effective interest | Held by the Company | |
| Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("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 |
| 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") (Note (iii)) | Hangzhou, Zhejiang | 100,000,000 | 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 2022, the Company had paid RMB4.8 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 as at 31 December 2021.
- (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 2022, 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.

| | 2022 | 2021 |
|--|-----------------|-----------|
| | RMB'000 | RMB'000 |
| NCI Percentage | 40% | 40% |
| Total assets | 149,618 | 154,716 |
| Total liabilities | (2,728) | (3,643) |
| Net assets | 146,890 | 151,073 |
| Carrying amount of NCI | 58,756 | 60,429 |
| Net interest income | 19,202 | 22,284 |
| Profit and total comprehensive income for the year | 7,817 | 27,289 |
| Profit allocated to NCI | 3,127 | 10,916 |
| Net cash generated from operating activities | 16,824 | 87,529 |
| Net cash used in investing activities | (113) | (34,973) |
| Net cash used in financing activities | (12,296) | (115,664) |

16 FIXED ASSETS

(a) Reconciliation of carrying amount

| | Premises | Right-of-use | Office and | Motor | Electronic | Leasehold | Total |
|---|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| | RMB'000 | assets | other | vehicles | equipment | improvement | RMB'000 |
| | | RMB'000 | equipment | RMB'000 | RMB'000 | RMB'000 | |
| | | | RMB'000 | | | | |
| Cost: | | | | | | | |
| At 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 and 1 January 2022 | 22,115 | 8,899 | 3,965 | 4,456 | 1,988 | 35,882 | 77,305 |
| Additions | — | — | — | — | 35 | 1 | 36 |
| Retirement | — | — | (1) | — | — | — | (1) |
| At 31 December 2022 | 22,115 | 8,899 | 3,964 | 4,456 | 2,023 | 35,883 | 77,340 |
| Accumulated depreciation: | | | | | | | |
| At 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 and 1 January 2022 | (2,247) | (3,861) | (2,999) | (4,017) | (1,750) | (17,351) | (32,225) |
| Charge for the year | (731) | (2,966) | (540) | (288) | (82) | (3,005) | (7,612) |
| Retirement | — | — | 1 | — | — | — | 1 |
| At 31 December 2022 | (2,978) | (6,827) | (3,538) | (4,305) | (1,832) | (20,356) | (39,836) |
| Net book value: | | | | | | | |
| At 31 December 2022 | <u>19,137</u> | <u>2,072</u> | <u>426</u> | <u>151</u> | <u>191</u> | <u>15,527</u> | <u>37,504</u> |
| At 31 December 2021 | <u>19,868</u> | <u>5,038</u> | <u>966</u> | <u>439</u> | <u>238</u> | <u>18,531</u> | <u>45,080</u> |

(b) Right-of-use assets

| | At 31 December 2022 RMB'000 | At 31 December 2021 RMB'000 |
|--|--------------------------------------|--------------------------------------|
| Premises leased for own use, carried at depreciated cost | <u>2,072</u> | <u>5,038</u> |

17 OTHER ASSETS

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|------------|---|--------------------------------|
| Prepayment | 786 | 822 |
| Others | 695 | 366 |
| | <u>1,481</u> | <u>1,188</u> |

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

18 INTEREST-BEARING BORROWINGS

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|---|--------------------------------|
| Bank loans (<i>Note (i)</i>) | | |
| — Amortised cost | 120,000 | 130,000 |
| — Accrued interest | 143 | 157 |
| | <u>120,143</u> | <u>130,157</u> |
| Borrowings from third parties (<i>Note (ii)</i>) | | |
| — Amortised cost | 196,000 | 196,980 |
| — Accrued interest | 4,581 | 4,023 |
| | <u>200,581</u> | <u>201,003</u> |
| Borrowings from Euro zone (<i>Note (iii)</i>) | | |
| — Amortised cost | 433,953 | 313,784 |
| — Accrued interest | 5,255 | 29 |
| | <u>439,208</u> | <u>313,813</u> |
| Total | <u>759,932</u> | <u>644,973</u> |

Notes:

- (i) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2022 and 31 December 2021, none of the covenants relating to the bank loans had been breached.

- (ii) In 2022, the Group obtained financings with nominal amount totaling RMB198.73 million at an interest rate ranging from 5.00% to 5.30% per annum by issuing financing products indirectly on trading platforms located in the PRC which are due from February 2023 to October 2023. As at 31 December 2022, the remaining balance of these financial products was RMB198.73 million. The above transactions were guaranteed by certain shareholders and related parties.
- (iii) During the years ended 31 December 2019, 2020 and 2021, the Group obtained financing with nominal amount totaling EUR26.5 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.

In 2022, the Group obtained financing with nominal amount totaling EUR23.5 million from four financial institutions located in Euro zone, which bear interest ranging from 4.00% to 4.25% per annum and are due from March 2024 to November 2025. Among these borrowings, nominal amount totaling EUR4.3 million at an interest rate of 4.00% per annum are guaranteed by the Jinhui Micro-finance, which are due in March 2024.

In 2022, the Group also obtained financing with nominal amount totaling CNH216.5 million from three financial institutions located in Euro zone, which bear interest ranging from 5.50% to 8.03% per annum and are due from June 2023 to May 2027. Among these borrowings, nominal amount totaling CNH75.0 million at an interest rate of 8.03% per annum are guaranteed by the Jinhui Micro-finance, which are due in May 2027.

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 2022 | | At 31 December 2021 | |
|--------------------------------------|--|---|--|---|
| | Present value of the minimum lease payments <i>RMB'000</i> | Total minimum lease payments <i>RMB'000</i> | Present value of the minimum lease payments <i>RMB'000</i> | Total minimum lease payments <i>RMB'000</i> |
| Within 1 year | 1,786 | 1,801 | 3,197 | 3,274 |
| After 1 year but within 2 years | 160 | 174 | 1,649 | 1,801 |
| After 2 years but within 5 years | — | — | 149 | 175 |
| | <u>1,946</u> | <u>1,975</u> | <u>4,995</u> | <u>5,250</u> |
| Less: total future interest expenses | | <u>(29)</u> | | <u>(255)</u> |
| Present value of lease liabilities | | <u>1,946</u> | | <u>4,995</u> |

20 ACCRUALS AND OTHER PAYABLES

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|---|--------------------------------|--------------------------------|
| Accrued staff costs | 5,375 | 5,529 |
| Value-added tax payable | 2,834 | 6,479 |
| Tax and surcharges and other taxation payable | 1,597 | 1,984 |
| Guarantee deposit | 5,000 | 5,000 |
| Auditors' remuneration payable | 2,198 | 2,007 |
| Commission payables of obtaining interest-bearing borrowings | 2,176 | 1,804 |
| Acquisition of interest in subsidiary from non-controlling shareholders | — | 2,600 |
| Others | 2,100 | 2,817 |
| | <u>21,280</u> | <u>28,220</u> |

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|--------------------------------|--------------------------------|
| Balance of income tax payable at the beginning of the year | 44,398 | 46,078 |
| Provision for PRC income tax for the year (<i>Note 6(a)</i>) | 42,531 | 48,702 |
| Income tax paid during the year | <u>(43,971)</u> | <u>(50,382)</u> |
| Balance of income tax payable at the end of the year | <u>42,958</u> | <u>44,398</u> |

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the years ended 31 December 2021 and 2022 are as follows:

| Deferred tax assets arising from: | Provision for impairment losses RMB'000 | Accrued expenses RMB'000 | Tax deductible losses RMB'000 | Exchange losses RMB'000 | Total RMB'000 |
|---|--|--------------------------------|--|-------------------------------|----------------------|
| At 1 January 2021 | 47,456 | 345 | 1,144 | — | 48,945 |
| Charged to profit or loss (<i>Note 6(a)</i>) | <u>4,477</u> | <u>(96)</u> | <u>(1,144)</u> | <u>—</u> | <u>3,237</u> |
| At 31 December 2021 and 1 January 2022 | 51,933 | 249 | — | — | 52,182 |
| Charged to profit or loss (<i>Note 6(a)</i>) | <u>4,678</u> | <u>(190)</u> | <u>—</u> | <u>2,144</u> | <u>6,632</u> |
| At 31 December 2022 | <u><u>56,611</u></u> | <u><u>59</u></u> | <u><u>—</u></u> | <u><u>2,144</u></u> | <u><u>58,814</u></u> |

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

| | Share capital <i>RMB'000</i> <i>Note 22(c)</i> | Surplus reserve <i>RMB'000</i> <i>Note 22(d)(ii)</i> | General risk reserve <i>RMB'000</i> <i>Note 22(d)(iii)</i> | Retained profits <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|---|---|---|---------------------------------------|-------------------------|
| Balance at 31 December 2021 and 1 January 2022 | <u>1,180,000</u> | <u>48,794</u> | <u>25,801</u> | <u>162,341</u> | <u>1,416,936</u> |
| Changes in equity for 2022: | | | | | |
| Total comprehensive income for the year | — | — | — | 6,661 | 6,661 |
| Appropriation to surplus reserve | — | 667 | — | (667) | — |
| Appropriation to general risk reserve | — | — | 1,047 | (1,047) | — |
| Dividends approved in respect of the previous year | — | — | — | (59,000) | (59,000) |
| Balance at 31 December 2022 | <u>1,180,000</u> | <u>49,461</u> | <u>26,848</u> | <u>108,288</u> | <u>1,364,597</u> |
| | Share capital <i>RMB'000</i> <i>Note 22(c)</i> | Surplus reserve <i>RMB'000</i> <i>Note 22(d)(ii)</i> | General risk reserve <i>RMB'000</i> <i>Note 22(d)(iii)</i> | Retained profits <i>RMB'000</i> | Total <i>RMB'000</i> |
| Balance at 31 December 2020 and 1 January 2021 | <u>1,180,000</u> | <u>45,933</u> | <u>23,600</u> | <u>138,789</u> | <u>1,388,322</u> |
| 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 | <u>1,180,000</u> | <u>48,794</u> | <u>25,801</u> | <u>162,341</u> | <u>1,416,936</u> |

(b) Dividends

At the annual general meeting held on 23 June 2022, the cash dividends of RMB0.05 per share before tax in an aggregate amount of RMB59 million was approved to declare to all equity shareholders of the Company and paid during the year ended 31 December 2022. The dividend was attributable to the year of 2021. (2021: nil).

At the Xingyao Micro-finance's shareholders' meeting held on 20 July 2022, the cash dividend of RMB12.0 million was approved to declare to all equity shareholders and paid during the year ended 31 December 2022. The dividend was attributable to the year of 2021.

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.

(c) Share capital

As at 31 December 2022, 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 17 March 2023, the proposed profit appropriations for the year ended 31 December 2022 are as follows:

- Appropriate RMB0.7 million (10% of the net profit of the Company) to surplus reserve;
- Appropriate RMB1.0 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 23 June 2022, the shareholders approved the following profit appropriations for the year ended 31 December 2021:

- Appropriate RMB2.9 million (10% of the net profit of the Company) to surplus reserve;
- Reverse RMB2.2 million from general risk reserve to retained profits.

(f) Distributable reserves

At 31 December 2021 and 31 December 2022, 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 RMB162.3 million and RMB108.3 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 2021 and 2022.

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 2022, 1.45% (31 December 2021: 1.53%) and 6.39% (31 December 2021: 6.48%) 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 2022 | | | | | |
|--|---|--|--|--|--------------------------|--|
| | 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 | 16,595 | — | — | — | 16,595 | 16,595 |
| Interest receivables | 163 | — | — | — | 163 | 163 |
| Loans and advances to customers | 133,586 | 415,487 | 2,383,888 | 16,029 | 2,948,990 | 2,654,305 |
| Financial assets measured at fair value through profit or loss | — | — | — | — | — | — |
| Other assets | 695 | — | — | — | 695 | 695 |
| Total | <u>151,039</u> | <u>415,487</u> | <u>2,383,888</u> | <u>16,029</u> | <u>2,966,443</u> | <u>2,671,758</u> |
| Liabilities | | | | | | |
| Interest-bearing borrowings | — | (83,379) | (336,417) | (408,632) | (828,428) | (759,932) |
| Lease liabilities | — | (1,642) | (159) | (174) | (1,975) | (1,946) |
| Accruals and other payables | (11,474) | — | — | — | (11,474) | (11,474) |
| Total | <u>(11,474)</u> | <u>(85,021)</u> | <u>(336,576)</u> | <u>(408,806)</u> | <u>(841,877)</u> | <u>(773,352)</u> |
| | <u>139,565</u> | <u>330,466</u> | <u>2,047,312</u> | <u>(392,777)</u> | <u>2,124,566</u> | <u>1,898,406</u> |

31 December 2021

| | Overdue/ Repayment on demand <i>RMB'000</i> | Within three months <i>RMB'000</i> | Between three months and one year <i>RMB'000</i> | Between one year and five years <i>RMB'000</i> | Total <i>RMB'000</i> | Carrying amount <i>RMB'000</i> |
|--|--|---|---|--|-------------------------|--------------------------------------|
| Assets | | | | | | |
| Cash and cash equivalents | 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 | <u>181,390</u> | <u>488,954</u> | <u>2,204,620</u> | <u>12,784</u> | <u>2,887,748</u> | <u>2,532,710</u> |
| 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 | <u>(14,228)</u> | <u>(67,963)</u> | <u>(540,972)</u> | <u>(74,573)</u> | <u>(697,736)</u> | <u>(664,196)</u> |
| | <u>167,162</u> | <u>420,991</u> | <u>1,663,648</u> | <u>(61,789)</u> | <u>2,190,012</u> | <u>1,868,514</u> |

(c) **Interest risk**

The Group is principally engaged in the provision of micro-finance services. Its interest rate risk arises primarily from deposits with banks, loans and advances to customers and interest-bearing borrowings.

(i) **Interest rate profile**

The following tables details the interest rate profile of the Group's assets and liabilities as at the end of the reporting periods:

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|---|---|--------------------------------|
| Fixed interest rate | | |
| Financial assets | | |
| — Loans and advances to customers | 2,654,305 | 2,489,479 |
| Financial liabilities | | |
| — Interest-bearing borrowings | (759,932) | (644,973) |
| — Leased liability | (1,946) | (4,995) |
| Net | <u>1,892,427</u> | <u>1,839,511</u> |
| Variable interest rate | | |
| Financial assets | | |
| — Cash and cash equivalent | <u>16,587</u> | <u>42,673</u> |
| Net | <u>16,587</u> | <u>42,673</u> |
| Net fixed rate borrowings as a percentage of total borrowings | <u>100.00%</u> | <u>100.00%</u> |

(ii) **Sensitivity analysis**

At 31 December 2022 and 31 December 2021, 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 RMB62,000 and RMB160,000 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 | |
|-----------------------------|---------------------------------------|------------------|
| | 2022 | 2021 |
| | Euros | Euros |
| | RMB'000 | RMB'000 |
| Cash and cash equivalents | 76 | 36,058 |
| Interest-bearing borrowings | (229,953) | (190,630) |
| | (229,877) | (154,572) |

(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.

| | 2022 | | 2021 | |
|-------|--|--|--|--|
| | Increase/(decrease) in foreign exchange rates bps | Effect on profit after tax and retained profits RMB'000 | Increase/(decrease) in foreign exchange rates bps | Effect on profit after tax and retained profits RMB'000 |
| Euros | 100 | (1,724) | 100 | (1,159) |
| | (100) | 1,724 | (100) | 1,159 |

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 2022 | | | |
|---|---------------------|---------|---------|---------|
| | 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 | — | — | — | — |
| | ===== | ===== | ===== | ===== |
| | 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 |
| | ===== | ===== | ===== | ===== |

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

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 2021 and 31 December 2022.

24 COMMITMENTS

As at 31 December 2022 and 31 December 2021, there is no capital commitment of the Group.

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

| | 2022 | 2021 |
|---|------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Key management personnel remuneration (<i>Note (i)</i>) | 3,260 | 3,235 |
| Receiving guarantees for bank loans (<i>Note (ii)</i>) | 120,000 | 130,000 |
| Receiving guarantees for borrowing from third parties (<i>Note (iii)</i>) | 198,730 | 238,110 |
| Releasing guarantees for convertible notes | — | (80,000) |
| Releasing guarantees for bank loans (<i>Note (ii)</i>) | (130,000) | (140,000) |
| Releasing guarantees for borrowing from third parties (<i>Note (iii)</i>) | (199,760) | (287,760) |

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 2022 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 2022 were provided by the Chairman of the Board without charges. For the details of borrowings from third parties, please refer to Note 18(ii).

(b) Balances with key management personnel

| | 31 December | 31 December |
|--|--------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Guarantees received for borrowing from third parties | 198,730 | 199,760 |
| Guarantees received for bank loans | 120,000 | 130,000 |

(c) **Other related party transactions**

| | 2022 RMB'000 | 2021 RMB'000 |
|--|-----------------|-----------------|
| Administrative expenses (<i>Note (i)</i>) | 1,344 | 1,379 |
| Depreciation expense of right-of-use assets (<i>Note (ii)</i>) | 2,693 | 2,693 |
| Interest expense of lease liabilities (<i>Note (ii)</i>) | 183 | 401 |
| Receiving guarantees for bank loans (<i>Note (iii)</i>) | 120,000 | 130,000 |
| Receiving guarantees for borrowing from third parties (<i>Note (iv)</i>) | 198,730 | 238,110 |
| Releasing guarantees for convertible notes | — | (80,000) |
| Releasing guarantees for bank loans (<i>Note (iii)</i>) | (130,000) | (140,000) |
| Releasing guarantees for borrowing from third parties (<i>Note (iv)</i>) | (199,760) | (287,760) |

Notes:

- (i) The utilities and entertainment fees were paid to Zuoli Holdings Group Company Limited and its subsidiary.
- (ii) 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 2022 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 2022 were provided by other related parties of the Group without charges. For the details of borrowings from third parties, please refer to Note 18(ii).

(d) **Balances with other related parties**

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|--------------------------------|--------------------------------|
| Lease liabilities | 1,485 | 4,280 |
| Guarantees received for bank loans | 120,000 | 130,000 |
| Guarantees received for borrowing from third parties | 198,730 | 199,760 |

26 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) **Impairment of financial assets measured at amortised cost**

The Group reviews portfolios of financial assets measured at amortised cost to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash

flows for financial assets measured at amortised cost. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

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

(b) Impairment of long-lived assets

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

(c) Depreciation and amortisation

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

(d) Tax

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

(e) **Determining the lease term**

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

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | | 31 December | 31 December |
|-----------------------------|-------------|-------------------------|-------------------------|
| | | 2022 | 2021 |
| | <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Assets | | | |
| Cash and cash equivalents | | 922 | 36,784 |
| Intangible assets | | — | 518 |
| Fixed assets | | 20,048 | 22,484 |
| Investments in subsidiaries | | 1,319,293 | 1,315,900 |
| Deferred tax assets | | 5,043 | 3,189 |
| Other assets | | <u>469,633</u> | <u>367,433</u> |
| Total assets | | <u><u>1,814,939</u></u> | <u><u>1,746,308</u></u> |
| Liabilities | | | |
| Interest-bearing borrowings | | 439,208 | 313,813 |
| Accruals and other payables | | 5,924 | 8,200 |
| Current taxation | | 4,913 | 6,503 |
| Lease liabilities | | <u>297</u> | <u>856</u> |
| Total liabilities | | <u><u>450,342</u></u> | <u><u>329,372</u></u> |
| NET ASSETS | | <u><u>1,364,597</u></u> | <u><u>1,416,936</u></u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 22 | 1,180,000 | 1,180,000 |
| Reserves | | <u>184,597</u> | <u>236,936</u> |
| TOTAL EQUITY | | <u><u>1,364,597</u></u> | <u><u>1,416,936</u></u> |

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 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**

HKFRS 17, *Insurance contracts* 1 January 2023

Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current* 1 January 2023

Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies* 1 January 2023

Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: *Definition of accounting estimates* 1 January 2023

Amendments to HKAS 12, *Income taxes: 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. Recently, the State Council granted approval to Huzhou City to construct a national sustainable development innovation zone under the theme of sustainable development in ecological resource-intensive areas driven by green innovation. 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. In May 2022, the United Nations Global Geospatial Knowledge and Innovation Centre was inaugurated in Deqing. 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 2022, the number of microfinance companies in Zhejiang reached 286 in total. The average registered capital per microfinance company amounted to RMB0.17 billion. The average loan balance per microfinance company amounted to RMB0.18 billion.

As of 31 December 2022, 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 2022 reached approximately RMB4.32 billion (2021: RMB3.92 billion), out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 76.2% (2021: 85.0%). As of 31 December 2022, the balance of loans (excluding accrued interest) of the Group and these three microfinance companies reached approximately RMB3.39 billion (2021: RMB3.03 billion), out of which the balance of loans (excluding accrued interest) of the Group accounted for approximately 83.8% (2021: 87.7%).

Business Overview

As at 31 December 2022, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Local Financial Regulatory Bureau of Zhejiang* (浙江省地方金融监督管理局). 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 or segments including ecology, agriculture, forestry, animal husbandry and fishery, development of new energy, technological improvement of energy conservation and emission reduction as well as economic transition.

Our gross loan balance (excluding accrued interest) increased from RMB2,655.7 million as at 31 December 2021 to RMB2,840.8 million as at 31 December 2022.

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 2022 | As at 31 December 2021 |
|--|---------------------------------------|------------------------------|
| Registered capital (RMB'000) | 1,180,000 | 1,180,000 |
| Gross loans and advances to customers (excluding accrued interest, RMB'000) | 2,840,822 | 2,655,690 |
| Leverage ratio ⁽¹⁾ | 2.41 | 2.25 |

Note:

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

For the years ended 31 December 2021 and 2022, our average interest rates for loans were 9.9% and 9.0%, respectively. Our average loan interest rate decreased during the aforesaid period, mainly due to grant of lower interest rate for green loans, and the increase in amount of green loans. In addition, the national banks increased their support to small and micro enterprises in response to policy requirements, and at the same time, the average interest rate for loans granted by our peers decreased. As a result, in order to secure our asset quality and market share, as well as to maintain competitiveness in the industry, we also 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 2022 | As at 31 December 2021 |
|--|------------------------------|------------------------------|
| Up to RMB500,000 | 1,357 | 1,395 |
| Over RMB500,000 to RMB1 million (inclusive) | 50 | 59 |
| Over RMB1 million to RMB5 million (inclusive) | 325 | 371 |
| Over RMB5 million | <u>166</u> | <u>147</u> |
| Total number of loans and advances to customers | <u>1,898</u> | <u>1,972</u> |

As at 31 December 2021 and 2022, the maximum loan amount of approximately 73.7% and 74.1% 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 SECURITY

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

| | As at 31 December 2022 | | As at 31 December 2021 | |
|--|---------------------------|--------------|---------------------------|------------|
| | RMB'000 | % | RMB'000 | % |
| Unsecured loans ⁽¹⁾ | 27,917 | 1.0 | 29,527 | 1.1 |
| Guaranteed loans | 2,782,373 | 97.9 | 2,596,837 | 97.8 |
| Collateralized loans | 10,542 | 0.4 | 12,262 | 0.5 |
| Pledged loans | <u>19,990</u> | <u>0.7</u> | <u>17,064</u> | <u>0.6</u> |
| Sub-total | 2,840,822 | 100.0 | 2,655,690 | 100.0 |
| Accrued interest | <u>22,934</u> | | <u>31,473</u> | |
| Gross loans and advances to customers | <u>2,863,756</u> | | <u>2,687,163</u> | |

Note:

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

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

| | As at 31 December 2022 | | As at 31 December 2021 | |
|--|---------------------------|--------------|---------------------------|------------|
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Within three months | 5,400 | 0.2 | 6,200 | 0.2 |
| Three to six months | 145,297 | 5.1 | 76,767 | 2.9 |
| Six months to one year | 2,673,683 | 94.1 | 2,559,794 | 96.4 |
| More than one year | <u>16,442</u> | <u>0.6</u> | <u>12,929</u> | <u>0.5</u> |
| Sub-total | 2,840,822 | 100.0 | 2,655,690 | 100.0 |
| Accrued interest | <u>22,934</u> | | <u>31,473</u> | |
| Gross loans and advances to customers | <u>2,863,756</u> | | <u>2,687,163</u> | |

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

| | As at 31 December 2022 | | As at 31 December 2021 | |
|---|---------------------------|--------------|---------------------------|-------------|
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Up to RMB500,000 | 57,821 | 2.0 | 65,009 | 2.5 |
| Over RMB500,000 to RMB1 million (inclusive) | 44,757 | 1.6 | 51,531 | 1.9 |
| Over RMB1 million to RMB5 million (inclusive) | 1,053,544 | 37.1 | 1,108,050 | 41.7 |
| Over RMB5 million | <u>1,684,700</u> | <u>59.3</u> | <u>1,431,100</u> | <u>53.9</u> |
| Sub-total | 2,840,822 | 100.0 | 2,655,690 | 100.0 |
| Accrued interest | <u>22,934</u> | | <u>31,473</u> | |
| Gross loans and advances to customers | <u>2,863,756</u> | | <u>2,687,163</u> | |

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

| | As at 31 December 2022 | | | Total RMB'000 |
|--|-----------------------------|--|--|-------------------------|
| | 12-month ECLs RMB'000 | Lifetime ECLs non credit- impaired RMB'000 | Lifetime ECLs credit- impaired RMB'000 | |
| Gross loans and advances to customers | 2,638,388 | 91,026 | 134,342 | 2,863,756 |
| Less: Allowances for impairment losses | <u>(62,864)</u> | <u>(17,883)</u> | <u>(128,704)</u> | <u>(209,451)</u> |
| Net loans and advances to customers | <u><u>2,575,524</u></u> | <u><u>73,143</u></u> | <u><u>5,638</u></u> | <u><u>2,654,305</u></u> |
| | As at 31 December 2021 | | | Total RMB'000 |
| | 12-month ECLs RMB'000 | Lifetime ECLs non credit- impaired RMB'000 | Lifetime ECLs credit- impaired RMB'000 | |
| Gross loans and advances to customers | 2,498,812 | 64,764 | 123,587 | 2,687,163 |
| Less: Allowances for impairment losses | <u>(65,720)</u> | <u>(13,939)</u> | <u>(118,025)</u> | <u>(197,684)</u> |
| Net loans and advances to customers | <u><u>2,433,092</u></u> | <u><u>50,825</u></u> | <u><u>5,562</u></u> | <u><u>2,489,479</u></u> |

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

| | As at 31 December 2022 | As at 31 December 2021 |
|--|---------------------------------------|------------------------------|
| Impaired loan ratio⁽¹⁾ | 4.7% | 4.6% |
| Balance of impaired loans (RMB'000) | 134,342 | 123,587 |
| Gross loans and advances to customers (RMB'000) | 2,863,756 | 2,687,163 |
| Allowance coverage ratio⁽²⁾ | 156% | 160% |
| Allowances for impairment losses ⁽³⁾ (RMB'000) | 209,451 | 197,684 |
| Balance of impaired loans (RMB'000) | 134,342 | 123,587 |
| Provision for impairment losses ratio⁽⁴⁾ | 7.3% | 7.4% |
| Balance of overdue loans (RMB'000) | 133,586 | 122,990 |
| Gross loans and advances to customers (RMB'000) | 2,863,756 | 2,687,163 |
| Overdue loan ratio⁽⁵⁾ | 4.7% | 4.6% |

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 2021 and 31 December 2022, our balance of impaired loans amounted to RMB123.6 million and RMB134.3 million, respectively.

Total overdue loans

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

| | As at 31 December 2022 RMB'000 | As at 31 December 2021 RMB'000 |
|----------------------|---|---|
| Unsecured loans | 13,669 | 13,386 |
| Guaranteed loans | 112,425 | 104,587 |
| Collateralized loans | <u>7,492</u> | <u>5,017</u> |
| Total overdue loans | <u><u>133,586</u></u> | <u><u>122,990</u></u> |

We had overdue loans of RMB123.0 million and RMB133.6 million as at 31 December 2021 and 31 December 2022, respectively, accounting for 4.6% and 4.7% of our gross loan balance as at the respective dates. As at 17 March 2023, RMB1.5 million out of the overdue loans as of 31 December 2022 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:

| | 2022 | 2021 |
|--|------------------------|-----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Interest income from | | |
| Loans and advances to customers | 250,369 | 269,323 |
| Cash at banks | <u>89</u> | <u>306</u> |
| Total interest income | <u>250,458</u> | <u>269,629</u> |
| Interest and commission expenses from | | |
| Borrowings from banks | (5,666) | (6,221) |
| Borrowings from non-bank institutions | (46,122) | (44,990) |
| Lease liabilities | (225) | (411) |
| Bank charges | <u>(110)</u> | <u>(129)</u> |
| Total interest and commission expenses | <u>(52,123)</u> | <u>(51,751)</u> |
| Net interest income | <u>198,335</u> | <u>217,878</u> |

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rates that we charge on loans to our customers. Our balance of loans increased during the reporting period, generally in line with the size of our capital base, which is in turn affected by the size of our net assets and financing. As at 31 December 2021 and 2022, our loan balance (excluding accrued interest) were RMB2,655.7 million and RMB2,840.8 million, respectively, and for the years ended 31 December 2021 and 2022, our average interest rates for loans were 9.9% and 9.0%, respectively. Our average loan interest rate decreased during the aforesaid period, mainly due to grant of lower interest rate for green loans, and the increase in amount of green loans. In addition, the national banks increased their support to small and micro enterprises in response to policy requirements, and at the same time, the average interest rate for loans granted by our peers decreased. As a result, in order to secure our asset quality and market share, as well as to maintain competitiveness in the industry, we also 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 RMB51.8 million and RMB52.1 million for the years ended 31 December 2021 and 2022, respectively. Our incurred interest expenses were primarily attributable to the interest payment on bank borrowings 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 2021 and 2022 amounted to RMB130.0 million and RMB120.0 million, respectively. Our balance of borrowings from non-bank institutions (excluding accrued interest) amounted to RMB510.8 million and RMB630.0 million as at 31 December 2021 and 2022, respectively.

Our net interest income for the years ended 31 December 2021 and 2022 were RMB217.9 million and RMB198.3 million, respectively.

Other net income

Our other net income for the years ended 31 December 2021 and 2022 were RMB34.1 million and RMB9.9 million, respectively. Our other net income decreased during the aforesaid period, mainly due to the decrease in foreign exchange losses or gains of RMB 28.0 million in this period as compared to the previous period.

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 2021 and 2022, our impairment losses were RMB21.1 million and RMB22.3 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 conference fees and labor protection fees. The table below sets out the components of our administrative expenses by nature for the periods indicated:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Tax and surcharge | 1,838 | 1,502 |
| Staff costs | 19,349 | 21,553 |
| Office expenditures and travel expenses | 3,816 | 4,242 |
| Operating lease charges | 19 | 73 |
| Depreciation and amortization expenses | 8,131 | 8,249 |
| Consulting and professional service fees | 9,542 | 9,843 |
| Business development expenses | 7,382 | 8,491 |
| Advertising expenses | 1,985 | 2,437 |
| Others | <u>1,354</u> | <u>1,268</u> |
| Total administrative expenses | <u><u>53,416</u></u> | <u><u>57,658</u></u> |

Our staff costs accounted for approximately 37.4% and 36.2% of the total administrative expenses for the years ended 31 December 2021 and 2022, respectively. Our staff costs decreased from RMB21.6 million for the year ended 31 December 2021 to RMB19.3 million for the year ended 31 December 2022, which was mainly due to the fact that the daily maintenance of our business system had switched to outsourced regular maintenance during the year, resulting in the decrease in the number of personnel in the technical department correspondingly.

Income tax

Our income taxes for the years ended 31 December 2021 and 2022 were RMB45.5 million and RMB35.9 million, respectively, and our effective tax rates were 26.3% and 27.1%, respectively.

Profit and total comprehensive income for the year

We had profit and total comprehensive income for the year of RMB127.7 million and RMB96.7 million for the years ended 31 December 2021 and 2022, 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, 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 2022, our balance of interest-bearing borrowings was approximately RMB759.9 million (31 December 2021: RMB645.0 million).

Working Capital Management

Cash flows

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

| | 2022 | 2021 |
|--|----------------------|---------------|
| | RMB'000 | RMB'000 |
| Cash and cash equivalents as at 1 January | 42,678 | 78,229 |
| Net cash (used in)/generated from operating activities | (5,463) | 70,280 |
| Net cash (used in)/generated from investing activities | (26) | 118 |
| Net cash used in financing activities | (19,514) | (104,225) |
| Net decrease in cash and cash equivalents | (25,003) | (33,827) |
| Effect of the change of exchange rate | (1,080) | (1,724) |
| Cash and cash equivalents as at 31 December | <u>16,595</u> | <u>42,678</u> |

Net cash used in 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 used in operating activities for the year ended 31 December 2022 was RMB5.5 million. Our net cash used in operating activities reflect: (i) our profit before tax of RMB132.6 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB22.3 million, depreciation and amortization of RMB8.1 million, interest expenses of RMB52.0 million, foreign exchange loss of RMB14.2 million; (ii) the effect of changes in working capital, primarily including the increase in total loans and advances to customers of RMB182.7 million, the increase in interest receivables and other assets of RMB3.6 million, and the decrease in accruals and other payables of RMB4.4 million; and (iii) income tax paid of RMB44.0 million.

Net cash used in investing activities

For the year ended 31 December 2022, our net cash used in investing activities was RMB26 thousand. Our net cash used in investing activities was primarily the payment for the purchase of fixed assets of RMB36 thousand, partially offset by gains from disposal of wealth management and other financial products of RMB10 thousand.

Net cash used in financing activities

For the year ended 31 December 2022, our net cash used in financing activities was RMB19.5 million. Our net cash used in financing activities mainly consisted of (i) payment of interest on borrowings amounted to RMB34.2 million; (ii) payment of lease charge amounted to RMB3.6 million; (iii) payment of dividend to equity shareholders of the Company of RMB59.0 million and payment of dividend to non-controlling shareholders of RMB4.8 million; (iv) acquisition of non-controlling interests of RMB2.6 million; (v) repayment of interest-bearing borrowings amounted to RMB599.9 million, partially offset by the financing from interest-bearing borrowings received of RMB684.6 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 2021 and 2022, the balance of cash and cash equivalents amounted to RMB42.7 million and RMB16.6 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:

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|---------------------------|---|--------------------------------|
| Cash in hand | 2 | 3 |
| Cash at banks | 16,587 | 42,673 |
| Other currencies in cash | <u>6</u> | <u>2</u> |
| Cash and cash equivalents | <u>16,595</u> | <u>42,678</u> |

Loans and advances to customers

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

| | As at 31 December 2022 RMB'000 | As at 31 December 2021 RMB'000 |
|--|---|---|
| Corporate loans | 1,110,479 | 1,016,232 |
| Retail loans | 1,703,428 | 1,611,615 |
| Micro-loans granted online | <u>26,915</u> | <u>27,843</u> |
| Sub-total | 2,840,822 | 2,655,690 |
| Accrued interest | <u>22,934</u> | <u>31,473</u> |
| Gross loans and advances to customers | <u>2,863,756</u> | <u>2,687,163</u> |
| Total allowances for impairment losses | <u>(209,451)</u> | <u>(197,684)</u> |
| Net loans and advances to customers | <u>2,654,305</u> | <u>2,489,479</u> |

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

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

| | As at 31 December 2022 RMB'000 | As at 31 December 2021 RMB'000 |
|---------------------------------------|---|---|
| Within three months | 5,400 | 6,200 |
| Three to six months | 145,297 | 76,767 |
| Six months to one year | 2,673,683 | 2,559,794 |
| More than one year | <u>16,442</u> | <u>12,929</u> |
| Sub-total | 2,840,822 | 2,655,690 |
| Accrued interest | <u>22,934</u> | <u>31,473</u> |
| Gross loans and advances to customers | <u><u>2,863,756</u></u> | <u><u>2,687,163</u></u> |

As at 31 December 2021 and 2022, our overdue loan amounted to RMB123.0 million and RMB133.6 million, respectively, accounting for approximately 4.6% and 4.7% of our gross loans and advances to customers as at the same dates.

The following table sets out profile of loans by type of security as at the dates indicated:

| | As at 31 December 2022 RMB'000 | As at 31 December 2021 RMB'000 |
|---------------------------------------|---|---|
| Unsecured loans ⁽¹⁾ | 27,917 | 29,527 |
| Guaranteed loans | 2,782,373 | 2,596,837 |
| Collateralized loans | 10,542 | 12,262 |
| Pledged loans | <u>19,990</u> | <u>17,064</u> |
| Sub-total | 2,840,822 | 2,655,690 |
| Accrued interest | <u>22,934</u> | <u>31,473</u> |
| Gross loans and advances to customers | <u><u>2,863,756</u></u> | <u><u>2,687,163</u></u> |

Note:

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

The majority of our loans were guaranteed loans, which accounted for approximately 97.8% and 97.9% of our gross loans and advances to customers (excluding accrued interest) as at 31 December 2021 and 2022, 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 2022 RMB'000 | As at 31 December 2021 RMB'000 |
|--------------------|---|---|
| Prepayment | 786 | 822 |
| Others | <u>695</u> | <u>366</u> |
| Total other assets | <u><u>1,481</u></u> | <u><u>1,188</u></u> |

Accruals and other payables

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

| | As at 31 December 2022 RMB'000 | As at 31 December 2021 RMB'000 |
|---|---|---|
| Staff costs payable | 5,375 | 5,529 |
| Value-added tax payable | 2,834 | 6,479 |
| Tax and surcharges and other taxation payable | 1,597 | 1,984 |
| Other payables | <u>11,474</u> | <u>14,228</u> |
| Total accruals and other payables | <u><u>21,280</u></u> | <u><u>28,220</u></u> |

Our total accruals and other payables decreased during the above periods mainly due to the decrease of our value-added tax payables.

Current taxation

Our current taxation refers to our income tax payable, amounting to RMB44.4 million and RMB43.0 million as at 31 December 2021 and 2022, respectively.

Capital commitments

As of 31 December 2022, we have no capital commitment (31 December 2021: Nil).

Key Financial Indicators

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

| | For the year ended 31 December 2022 | For the year ended 31 December 2021 |
|---|--|--|
| Return on weighted average equity (%) | 5.0 | 6.5 |
| Average return on assets (%) ⁽¹⁾ | 3.6 | 4.9 |

Note:

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

Our return on weighted average equity and average return on assets both decreased slightly mainly due to the decrease in profit for the year ended 31 December 2022 as compared to the year ended 31 December 2021.

Gearing Ratio

| | As at 31 December 2022 | As at 31 December 2021 |
|----------------------------------|---------------------------------------|------------------------------|
| Gearing Ratio (%) ⁽¹⁾ | 39.2 | 32.3 |

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 increased, which was mainly due to the increase in balance of interest-bearing borrowings as at 31 December 2022 as compared to 31 December 2021.

Related Party Transactions

For the year ended 31 December 2022, 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 2022, the amount of guarantee provided by Mr. Yu Yin and other related parties amounted to RMB318.7 million. Such related party transactions constituted continuing connected transactions of the Company under Chapter 14A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the said provision of guarantees was fully exempt 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 2022, the Company and Jinhui Micro-finance (a non-wholly owned subsidiary of the Company) leased properties from Zuoli Holdings Group Company Limited* (佐力控股集團有限公司) (“**Zuoli Holdings**”) with a depreciation on right-of-use assets and interest expense of RMB2.9 million. The entering into of the lease agreements allow the Company and Jinhui Micro-finance to satisfy their operational needs. Utilities and management fees amounted to RMB1.3 million were paid to Zuoli Holdings and its subsidiaries. Deqing Puhua Energy Company Limited* (德清普華能源股份有限公司) (“**Puhua Energy**”) is a controlling shareholder and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company. Such related party transaction constituted connected transaction under Chapter 14A of the Listing Rules at the time of the signing of the lease agreements. Please refer to the Company’s announcements dated 7 July 2020 and 10 July 2020 for details.

Save as disclosed above, during the year ended 31 December 2022, 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 2022 RMB'000 | As at 31 December 2021 RMB'000 |
|-----------------------------|---|---|
| Interest-bearing borrowings | 759,932 | 644,973 |

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

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2022, we did not have any off-balance sheet arrangements (31 December 2021: nil).

EMPLOYMENT AND EMOLUMENTS

As at 31 December 2022, the Company had approximately 94 employees (31 December 2021: 118). 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 2022.

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 2022.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2022, the Group had no share pledge (31 December 2021: nil).

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*), offshore 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 offshore 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 2022, the Group did not have any significant contingent liabilities (31 December 2021: 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 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 as well as the national sustainable development innovation zone, and is one of the best cities in Zhejiang Province and even the country in respect of financial ecological environment, which bring us a better opportunity to explore green development.

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 environmental 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 and GCPF (Global Climate Partnership Fund), which inspired the Company with international-leading green finance ideas and provided technological support, assisting the Company in developing more green finance products, and thus enabling us to better serve our green finance customers.

USE OF PROCEEDS

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

CORPORATE GOVERNANCE

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

As of the date of this announcement, the Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2022, 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 2022.

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 2022.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.04 per share for the year ended 31 December 2022 (the “**Proposed Final Dividend**”). The payment date for the Proposed Final Dividend will be determined upon approval by the Shareholders at the Company’s forthcoming annual general meeting to be held on Thursday, 29 June 2023 (the “**AGM**”) (2021: RMB0.05 per share).

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

On 9 February 2023, the Company acquired 6% of the equity interest of Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co., Ltd., a subsidiary of the Company, and the shareholding increased from 60% to 66%.

Save as disclosed above, 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, 29 June 2023. 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, 30 May 2023 to Thursday, 29 June 2023, 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, 29 June 2023 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 Saturday, 27 May 2023.

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 2022. The annual financial statements of the Group have been audited by the independent auditor of the Company, KPMG.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zlkcx.cn). The annual report for the year ended 31 December 2022 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, 17 March 2023

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*