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

ANNUAL REPORT 2022

CONTENTS

DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Acting in Concert Agreement"	an agreement entered into by Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy and dated 28 April 2014
"AFR (三農)"	customers engaged in agricultural businesses and/or rural development activities, and/or customers residing in rural areas
"AGM"	an annual general meeting of the Company to 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 at 10:00 a.m.
"Articles of Association"	the articles of association of the Company
"Bangni Fiber"	浙江邦尼耐火纖維有限公司 (Zhejiang Bangni Refractory Fiber Co., Ltd.*)
"Board" or "Board of Directors"	the board of Directors
"Board of Supervisors"	the board of Supervisors
"Chief Financial Controller"	the chief financial controller of the Company
"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Company", "we", "us" or "our"	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 PRC with limited liability on 18 August 2011 and converted from our Predecessor Company on 28 April 2014, the H Shares of which are listed on the Hong Kong Stock Exchange (stock code: 6866)
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and in case of the Company, means Zuoli Holdings, Puhua Energy, Mr. Yu Yin, Mr. Yu Youqiang, Deqing Yintian, Mr. Shen Haiying, Dingsheng Investment and Mr. Zhang Jianming
"CSRC"	the China Securities Regulatory Commission
"Deqing Yintian"	德清銀天股權投資管理有限公司 (Deqing Yintian Equity Investment and Management Company Limited*)
"Dingsheng Investment"	德清鼎盛股權投資管理有限公司 (Deqing Dingsheng Equity Investment and Management Company Limited*)
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB by PRC nationals and/or PRC-established entities
"Group"	the Company and its subsidiaries

"H Share(s)"	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Jinhui Micro-finance"	德清金匯小額貸款有限公司 (Deqing Jinhui Micro-finance Company Limited*), a non-wholly owned subsidiary of the Company
"Listing Rules"	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Listing Date"	13 January 2015, the day on which the H Shares became listed on the Hong Kong Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to "China" and the "PRC" do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
"Predecessor Company"	德清佐力科創小額貸款有限公司 (Deqing Zuoli Kechuang Micro-finance Company Limited*), a limited liability company established in the PRC on 18 August 2011 and the predecessor of the Company
"Promoter(s)"	the promoters that established the Company on 28 April 2014. At the time of our establishment, our promoters comprised 6 corporate shareholders and 44 individual shareholders
"Puhua Energy"	德清普華能源股份有限公司 (Deqing Puhua Energy Company Limited*)
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	Domestic Share(s) and/or H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"SME(s)"	small and medium enterprise(s), as defined in the Notice on the Provisions for Classification Standards of Small and Medium-sized Enterprises (關於印發中小企業劃型標準規定的通知)
"Supervisor(s)"	the supervisor(s) of the Company

DEFINITIONS

"Xingyao Micro-finance"	杭州市高新區(濱江)興耀普匯小額貸款有限公司 (Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co., Ltd.*), a non-wholly owned subsidiary of the Company
"Zheli Financial Service"	浙江浙里金融信息服務有限公司 (Zhejiang Zheli Financial Information Service Co., Ltd.*), a limited liability company incorporated in the PRC
"Zuoli Holdings"	佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*)

* For identification purposes only

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yu Yin *(Chairman)*
Mr. Zheng Xuegen *(Vice-Chairman)*
Mr. Yang Sheng *(Vice-Chairman)*
Ms. Hu Fangfang

Non-executive Director

Mr. Pan Zhongmin (formerly known as Pan Zhongming)

Independent non-executive Directors

Mr. Chan Kin Man
Mr. Zhao Xuqiang
Ms. Yang Jie

SUPERVISORS

Ms. Zhou Mingwan *(Chairman)*
Mr. Wang Peijun
Mr. Chen Qi

AUDIT COMMITTEE

Mr. Chan Kin Man *(Chairman)*
Mr. Zhao Xuqiang
Ms. Yang Jie

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Zhao Xuqiang *(Chairman)*
Mr. Yu Yin
Mr. Chan Kin Man

NOMINATION COMMITTEE

Ms. Yang Jie *(Chairman)*
Mr. Yu Yin
Mr. Zhao Xuqiang

LOAN APPROVAL COMMITTEE

Mr. Yang Sheng *(Chairman)*
Mr. Zheng Xuegen
Ms. Hu Fangfang

COMPANY SECRETARY

Ms. Ho Wing Yan *(ACG, HKACG(PE))*

AUTHORISED REPRESENTATIVES

Mr. Yu Yin
Ms. Ho Wing Yan *(ACG, HKACG(PE))*

REGISTERED OFFICE

No. 399 Deqing Avenue
Wukang Road
Deqing County
Huzhou City
Zhejiang Province
PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 399 Deqing Avenue
Wukang Road
Deqing County
Huzhou City
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2703, 27th Floor, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

COMPANY'S WEBSITE

www.zlkcxd.cn

STOCK CODE

6866

AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor
registered in accordance with the
Financial Reporting Council Ordinance

LEGAL ADVISERS

ONC Lawyers *(as to Hong Kong laws)*
Dacheng Law Offices *(Dacheng Shanghai) (as to PRC laws)*

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

Shanghai Pudong Development Bank Co., Ltd.
(Huzhou Deqing Sub-branch)
Nos. 720 to 728 Wuyuan Street
Wukang Road, Deqing County
Huzhou Corty, Zhejiang Province
PRC

FINANCIAL SUMMARY

The following is a summary of assets and liabilities of the Group as at 31 December 2018, 2019, 2020, 2021 and 2022 and of the results of the Group for each of the years ended 31 December 2018, 2019, 2020, 2021 and 2022.

RESULTS

	Year ended 31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	**2022 RMB'000**
Interest income	337,536	320,349	304,952	269,629	**250,458**
Profit before taxation	191,212	188,482	162,072	173,163	**132,595**
Income tax	(48,312)	(47,694)	(44,249)	(45,465)	**(35,899)**
Profit and total comprehensive income for the year	142,900	140,788	117,823	127,698	**96,696**
Profit attributable to the equity shareholders of the Company	136,968	131,587	110,244	116,489	**93,340**
ASSETS AND LIABILITIES					
Total assets	2,427,471	2,527,413	2,604,379	2,651,212	**2,787,638**
Total liabilities	674,454	781,108	755,451	722,586	**826,116**
Total equity	1,753,017	1,746,305	1,848,928	1,928,626	**1,961,522**

CHAIRMAN'S STATEMENT

2022 was a challenging year for the Company, but also harbored steady growth. Under the difficult environment brought by the COVID-19 pandemic, the Company adhered to the core operating concept of sustainable development, and insisted on synchronizing risk prevention and business innovation. We managed to achieve stable results overcoming difficulties in internal and external aspects.

On behalf of the Board, I would like to express my gratitude to our Shareholders and stakeholders who have been following and supporting the development of the Company and all of our employees who have been striving for the best results for the Company. On behalf of the Group, I would like to present to you our operating results for 2022.

Over the past year, given the development trend of the overall economic environment, the Company always took risk prevention as the prerequisite, adopted prudent business measures, and insisted on synchronizing business and innovation. In 2022, we granted loans of RMB3,295.10million in total; interest income reached RMB250.46million; net profit reached RMB96.70million; and amounts attributable to equity shareholders of the Company reached RMB93.34 million. Our operating performance remained basically stable.

Meanwhile, the Company remained insisting in exploring sustainable development of "inclusive + green" in 2022. During the year, by leveraging on diversified financing cooperation and commenced diversified green business, the Company delivered satisfactory results in high-quality green development. The Company continued to tap deeply into the potential of green business and develop the green loan market. As of 31 December 2022, the Company's green loan balance was close to RMB569 million, representing approximately 20.8% of the loan balance. Furthermore, the Group cooperated with international investors, on top of establishing good and stable cooperation with GCPF (Global Climate Partner Fund), DEG, a wholly-owned subsidiary of KFW Bankengruppe) and other institutions, the Company cooperated with IPC (a German professional credit consultancy firm) and PRA (a Hong Kong professional credit consultancy firm) to commence various technical assistance projects. IPC mainly focuses on project capability construction, assisting the Company to achieve assessment and measurement of green loan in terms of carbon dioxide reduction. Technical assistance of PRA mainly focuses on developing a mature environment and society management system(ESMS), to incorporate environment, society and governance factors in to the loan decision mechanism, so as to further enhance the Company's risk identification and management and realize green transformation and healthy sustainable development of its own business and customers.

Looking forward to 2023, the Company will continue to uphold its fundamental inspiration, grasping the opportunities of green development under the green finance reform landscape and insisting the co-development concept of inclusive and green. Empowering by technology and upholding integrity and innovation, we will leverage on international green finance concepts and technology as well as integrate China's green concepts and local market development, to further implement pilot tasks of green micro-finance. We will fully utilize micro-finance companies to penetrate various fields, to explore the experience that can be promoted and replicated for Huzhou Green Finance Reform (湖州綠色金改), striving make greater contribution in high-quality development in regions we operated in.

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

17 March 2023

* For identification purpose only

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* (浙江省地方金融監督管理局). We have been providing financing solutions and loan services to customers with flexible terms through quick and comprehensive loan assessment and approval processes.

Our customer base primarily consists of customers engaged in AFR (三農), the SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc. Besides, as the pilot unit of green micro-finance company in Huzhou, we actively explored green micro-finance model, granted green finance to green industries 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	**166**	147
Total number of loans and advances to customers	**1,898**	1,972

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 RMB'000	%	As at 31 December 2021 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	**19,990**	**0.7**	17,064	0.6
Sub-total	**2,840,822**	**100.0**	2,655,690	100.0
Accrued interest	**22,934**		31,473	
Gross loans and advances to customers	**2,863,756**		2,687,163	

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 RMB'000	%	As at 31 December 2021 RMB'000	%
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	**16,442**	**0.6**	12,929	0.5
Sub-total	**2,840,822**	**100.0**	2,655,690	100.0
Accrued interest	**22,934**		31,473	
Gross loans and advances to customers	**2,863,756**		2,687,163	

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

	As at 31 December 2022 RMB'000	%	As at 31 December 2021 RMB'000	%
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	**1,684,700**	**59.3**	1,431,100	53.9
Sub-total	**2,840,822**	**100.0**	2,655,690	100.0
Accrued interest	**22,934**		31,473	
Gross loans and advances to customers	**2,863,756**		2,687,163	

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

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

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	**7,492**	5,017
Total overdue loans	**133,586**	122,990

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 RMB'000	2021 RMB'000
Interest income from		
Loans and advances to customers	**250,369**	269,323
Cash at banks	**89**	306
Total interest income	**250,458**	269,629
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	**(110)**	(129)
Total interest and commission expenses	**(52,123)**	(51,751)
Net interest income	**198,335**	217,878

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 RMB'000	2021 RMB'000
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	**1,354**	1,268
Total administrative expenses	**53,416**	57,658

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, 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 report, 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 **RMB'000**	2021 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	**16,595**	42,678

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	**6**	2
Cash and cash equivalents	**16,595**	42,678

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	**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
Total allowances for impairment losses	**(209,451)**	(197,684)
Net loans and advances to customers	**2,654,305**	2,489,479

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	**16,442**	12,929
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

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	**19,990**	17,064
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

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	**695**	366
Total other assets	**1,481**	1,188

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	**11,474**	14,228
Total accruals and other payables	**21,280**	28,220

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 Indicator

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 Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the said provision of guarantees was fully 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 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. 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 report, 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.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Yu Yin (俞寅), aged 36, was appointed as the executive Director and the chairman of the Board on 28 April 2014. Mr. Yu is one of the Promoters of the Company. He is primarily responsible for the Company's day-to-day management, postulating business development plans and overseeing the Company's overall corporate strategies. He is also a member of the Nomination Committee and Remuneration and Appraisal Committee. Mr. Yu is the son of Mr. Yu Youqiang (俞有強) who is the controlling shareholder of Puhua Energy, one of our Controlling Shareholders.

From August 2007 to March 2011, Mr. Yu was the chairman of the board of directors at Zhejiang Deqing Longxiang Investment Company Limited* (浙江德清隆祥投資有限公司, formerly known as Zhejiang Deqing Longxiang Guaranty Company Limited* (浙江德清隆祥擔保投資有限公司, "**Deqing Longxiang**"), a company that principally engaged in the provision of guarantee for SMEs and individuals and the related advisory services, and investment holding. Mr. Yu was involved in decision making of key issues but was not involved in the day-to-day management of Deqing Longxiang. During the same period of time, Mr. Yu was also working as an assistant to the president* (行長助理), being responsible for marketing at Deqing Rural Cooperative Bank Wukang Branch* (德清農村合作銀行武康支行, currently known as Zhejiang Deqing Rural Commercial Bank Company Limited* (浙江德清農村商業銀行股份有限公司)). From July 2015, Mr. Yu acted as the chairman of Deqing Jinhui Micro-finance Company Limited* (德清金匯小額貸款有限公司), a subsidiary of the Company. From June 2016 to July 2019, Mr. Yu is the chairman of the board of directors at Zhejiang Province Anli Tourism Development Company Limited* (浙江郡安里文旅發展有限公司) (formerly known as Deqing County Anli Tourism Development Company Limited* (德清郡安里旅遊開發有限公司)). Since June 2016, Mr. Yu Yin is the chairman of the board of directors at Deqing Yulong Tourism Development Company Limited* (德清御隆旅遊開發有限公司). Since December 2015, Mr. Yu Yin is the vice chairman of the board of directors at Zuoli Holdings Group Company Limited* (佐力控股集團有限公司).

Mr. Yu obtained a bachelor's degree in business administration in May 2007. From December 2011 to September 2012, Mr. Yu attended courses in Intermediate Studies for CEOs of the Cross-Straits Frontier* (海峽兩岸企業總裁前沿課程首期高級研修班) offered by School of Management, Fudan University and National Taiwan Normal University.

Mr. Yu, being one of our Promoters, has been one of our directors since the establishment of our Predecessor Company in August 2011.

As at the date of this report, Mr. Yu was interested in 47.72% of the Domestic Shares and 35.59% of the total issued Shares.

Mr. Zheng Xuegen (鄭學根), aged 58, was appointed as the executive Director on 28 April 2014. He is the vice chairman. Mr. Zheng is also one of the founders of the Company. He is primarily responsible for the day-to-day operations, strategic development and administrative management. He is also a member of the Loan Approval Committee.

From September 1990 to December 1994, Mr. Zheng worked as a researcher at Deqing Bulb Factory* (德清縣燈泡廠, currently known as Zhejiang Zhanzi Photoelectricity Co., Ltd* (浙江占字光電股份有限公司)), a company primarily engaged in manufacturing of lighting products. From January 1995 to January 1997, Mr. Zheng was the office manager* (廠辦主任) of the Crystal Fibre Factory of Zhejiang OSMUN Group Company Limited* (浙江歐詩漫集團有限公司), a company primarily engaged in manufacturing of skin care products, cosmetics and thermal insulation materials. Prior to joining our Predecessor Company, Mr. Zheng had worked successively as the officer in chief, human resources manager, secretary of the board of directors and deputy general manager at Zhejiang Jolly Pharmaceutical Co., Ltd. (浙江佐力藥業股份有限公司) ("**Jolly Pharmaceutical**"). In January 2008, Mr. Zheng served as a director and the deputy general manager of Jolly Pharmaceutical where he mainly carried out day-to-day management. He has served as a non-executive director of Jolly Pharmaceutical since 10 March 2014, where he has been mainly responsible for assisting the chairman in formulating strategies. Jolly Pharmaceutical is a company established in the PRC whose shares are listed on the Shenzhen Stock Exchange (stock code: 300181) and is principally engaged in the research, development, production and sales of pharmaceutical products. From July 2015 to April 2019, Mr. Zheng servers as the director of Deqing Jinhui Micro- finance Company Limited* (德清金匯小額貸款有限公司), a subsidiary of the Company. From August 2015 and December 2016, Mr. Zheng serves as the directors of Zuoli Micro-finance Hong Kong International Investment Company Limited* (佐力小貸香港國際投資有限公司) and Hangzhou High-tech District (Binjiang) Xingyao 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), the subsidiaries of the Company, respectively.

In February 2003, Mr. Zheng was accredited as the Excellent Worker for Workers' Union* (優秀工會工作者) by Huzhou City General Workers' Union* (湖州市總工會). In June 2006, Mr. Zheng obtained a Certificate for Completion of Training Course — File Management (Zhejiang)* (浙江省檔案管理崗位培訓證書) issued by Zhejiang Dang'an Cadre Education Training Centre (浙江省檔案幹部教育培訓中心). In September 2012, he also obtained a certificate for training for senior management of listed companies* (上市公司高級管理人員培訓證書) issued by Zhejiang Securities Regulatory Bureau* under CSRC (中國證券監督管理委員會浙江證監局). In December 2013, Mr. Zheng obtained a qualification certificate for secretary to board of directors* (董事會秘書資格證書) issued by the Shenzhen Stock Exchange.

Mr. Zheng has been acting as the vice chairman of our Predecessor Company since August 2011. On 10 March 2014, Mr. Zheng resigned as the deputy general manager of Jolly Pharmaceutical. As Mr. Zheng is serving as a non-executive director of Jolly Pharmaceutical, he does not participate in the day-to-day management of Jolly Pharmaceutical and he can devote sufficient time and efforts to acting as an executive Director of the Company. The Company therefore considers that Mr. Zheng has sufficient capacity to discharge his duties as directors of two listed companies.

Mr. Zheng obtained an adult higher education certificate majoring in economic management (經濟管理專業成人高等教育專業證書) from the Zhejiang Province Department Employee Colleges* (浙江省省級機關職工業餘大學) in February 2002. In January 2013, he also obtained a college diploma (專科文憑) in management through online learning majoring in administration management from China University of Geosciences (中國地質大學).

As at the date of this report, Mr. Zheng was interested in 0.34% of the Domestic Shares and 0.25% of the total issued Shares.

Mr. Yang Sheng (楊晟), aged 48, was appointed as the executive Director on 7 April 2016. He is also the general manager of the Company, the vice chairman of the Board and also the chairman of the Loan Approval Committee, who is mainly responsible for the business management of the Company. Before joining the Company, Mr. Yang accumulated ample experience on credit and management in Bank of China. From February 1994 to June 2003, Mr. Yang was a staff member at Huzhou City Branch of Bank of China. Mr. Yang served as the deputy head of security department in Huzhou City Branch of Bank of China from June 2003 to July 2007. Mr. Yang served as the head of security department in Huzhou City Branch of Bank of China from July 2007 to August 2010. Mr. Yang served as the head of general management department in Huzhou City Branch of Bank of China from January 2010 to August 2010. Mr. Yang was assigned to Anji County Sub-branch of Bank of China as the president from August 2010 to January 2014. Mr. Yang was the president of Deqing County Sub-branch of Bank of China from January 2014 to August 2015. Since December 2016, Mr. Yang has served as the chairman of the board of directors of Hangzhou High-tech District (Binjiang)Xingyao 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), a subsidiary of the Company. Mr. Yang has served as the general manager of Deqing Jinhui Micro-finance Company Limited*(德清金匯小額貸款有限公司), a subsidiary of the Company, from April 2018 to August 2018. Since August 2018, Mr. Yang has been appointed as the general manager of the Company. Since 16 December 2021, Mr. Yang has served as the chairman of the board of directors of Zhejiang Zuoli Health Technology Co., Ltd.*(浙江佐力健康科技有限公司). As at February 2022, Mr. Yang became a committee member of the tenth Deqing County Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議第十屆德清縣委員會). As at February 2023, Mr. Yang became a standing committee member of the tenth Deqing County Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議第十屆德清縣委員會). Mr. Yang was recognized as "Outstanding person for construction of the experimental area of the national green finance reform and innovation 2022 (2022年度國家綠色金融改革創新試驗區建設優秀個人)".

Ms. Hu Fangfang (胡芳芳), aged 41, was appointed as the executive Director on 28 June 2019. Ms. Hu joined the Company as the Chief Financial Controller and a member of the Loan Approval Committee on 1 July 2015. Ms. Hu is responsible for coordinating and guiding the financial management, budget management, accounting and auditing and internal control aspects of the Company. As executive Director, Ms. Hu will be responsible for formulating the Company's financial strategies, organize and implement important internal audit activities, coordinate fund raising activities for working capital of the Company's operation and prepare the Company's financial planning. She will also be responsible for monitoring the financial affairs of the Company's subsidiaries, assist senior management in implementing business strategies and operation plans to achieve the Company's operation and management targets and development goals. Prior to joining the Company, Ms. Hu has built up extensive experience on financial management.

From July 2004 to November 2006, Ms. Hu worked in Zhejiang Jiangong Real Estate Development Group Company Limited (浙江建工房地產開發集團有限公司) and engaged in financial duties. From November 2006 to December 2008, she worked in Zhejiang Dongfang Accountants Company Limited (浙江東方會計師事務所有限公司) and engaged in on-site audit works. From December 2008 to June 2015, Ms. Hu served as a manager of Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)). Ms. Hu has served as a director of Deqing Jinhui Micro-finance Company Limited* (德清金匯小額貸款有限公司), a subsidiary of the Company from July 2015 to April 2019. Ms. Hu has served as a supervisor of Hangzhou High-tech District (Binjiang) Xingyao 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), a subsidiary of the Company since December 2016.

Ms. Hu graduated from Zhejiang Institute of Finance and Economics (浙江財經學院) (currently known as Zhejiang University of Finance and Economics (浙江財經大學)) with a bachelor of management degree (major in accounting) in 2004. As at March 2022, Ms. Hu obtained a master's degree from the Fudan University School of Management (復旦大學管理學院). Ms. Hu was admitted as a certified public accountant of the Chinese Institute of Certified Public Accountants in 2007.

Non-executive Director

Mr. Pan Zhongmin (潘忠敏) (formerly known as Pan Zhongming (潘忠明)), aged 49, was appointed as the non-executive Director on 8 August 2014. Mr. Pan has over 10 years of experience in marketing related matters. From October 1998 to February 2003, Mr. Pan worked as a sales and marketing representative in Deqing Wukang Zhong Sheng Refractory and Heat Insulating Material Operating Department* (德清縣武康中盛耐火保溫材料經營部), a company primarily engaged in the sales and marketing of heat insulating material and refractory materials. From March 2003 to January 2005, Mr. Pan Zhongmin worked as a deputy general manager in Hangzhou Meibao Furnace Engineering Co., Ltd.* (杭州美寶爐窰工程有限公司), a company primarily engaged in the design, production and installation of furnace. He was responsible for overseeing the daily operation in the abovementioned companies. Since March 2005 till now, Mr. Pan has been the chairman of the board of directors of Bangni Fiber. Bangni Fiber is a company mainly engaged in production and sales of refractory fiber and materials where Mr. Pan has been responsible for strategic planning and business development. As at February 2022, Mr. Pan became a committee member of the tenth Deqing County Committee of the Chinese People's Political Consultative Conference*(中國人民政治協商會議第十屆德清縣委員會).

Mr. Pan graduated from Deqing Agricultural Vocational High School* (德清縣農職業高級中學) in July 1992. In July 2011, he obtained a college diploma (專科文憑) through online learning majoring in business administration management from Dalian University of Technology (大連理工大學). In January 2022, Mr. Pan obtained a bachelor degree in business administration from the Open University of China.

As at the date of this report, Mr. Pan was interested in 1.34% of the Domestic Shares and 1.00% of the total issued Shares.

Independent non-executive Directors

Mr. Chan Kin Man (陳健民), aged 43, was appointed as an independent non-executive Director on 29 June 2020. Mr. Chan was also appointed as the chairman of the audit committee and member of the remuneration and appraisal committee of the Company. Mr. Chan studied at Saint Joseph's College from September 1998 to June 2000 and obtained a Bachelor degree of Arts in Accountancy from The Hong Kong Polytechnic University in November 2003. Mr. Chan is a member of the Association of Chartered Certified Accountants of the UK (ACCA) and the Hong Kong Institute of Certified Public Accountants (HKICPA).

Mr. Chan has many years of experience in terms of financing, auditing, accounting, etc.. From September 2003 to March 2010, Mr. Chan acted as an accountant, senior accountant and audit manager in Ernst & Young successively, and involved in work in relation to projects of listing in Hong Kong and annual audit for many companies. From August 2010 to November 2015, Mr. Chan served as the chief financial officer in New Northeast Electric Holding Limited (新東北電氣控股有限公司). From July 2016 to September 2019, Mr. Chan served as the general manager of capital operation center and the investor relations director in Lvgem (China) Investment Company Limited (綠景(中國)投資有限公司). From September to November 2019, Mr. Chan served as the chief financial officer and company secretary of Lvgem (China) Real Estate Investment Company Limited (a company listed on the Stock Exchange of Hong Kong, stock code: 00095).

Mr. Zhao Xuqiang (趙旭強), aged 45, was appointed as an independent non-executive Director on 29 June 2020. Mr. Zhao was also appointed as the chairman of the remuneration and appraisal committee, member of the audit committee and nomination committee of the Company. Mr. Zhao graduated from Shanghai University of Finance & Economics and obtained a bachelor degree of economics in July 2000 and a master degree of economics from Shanghai University of Finance & Economics in March 2003. Mr. Zhao holds a certificate for independent directors issued by the Shanghai Stock Exchange and a certificate for Board secretary issued by Shenzhen Stock Exchange.

From September 2003 to September 2004, Mr. Zhao served at the Listing Office of Yiwu, Zhejiang Province. From October 2004 to September 2008, Mr. Zhao acted as associate chief officer and chief officer in Zhejiang Supervision Bureau of China Securities Regulatory Commission successively. From October 2008 to August 2013, Mr. Zhao acted as chief officer and associate consultant in the institutional supervision department of China Securities Regulatory Commission successively. From September 2013 to September 2014, Mr. Zhao acted as a temporary Deputy Director in Quanzhou Financial Affairs Bureau, Fujian Province. From October 2014 to July 2016, Mr. Zhao acted as an associate consultant and consultant in the Illegal Trading Bureau of China Securities Regulatory Commission (中國證監會打非局) successively. From August 2016 to July 2018, Mr. Zhao acted as a director in the Second Division of the Capital Market of Hangzhou Branch of Industrial Bank Co., Ltd.. Mr. Zhao acted as an executive director of Zhejiang Jiurishan Enterprises Management Consultant Co., Ltd.* (浙江九日山企業管理諮詢有限公司) since September 2018. Mr. Zhao acted as an independent director of Hithink RoyalFlush Information Network Co., Ltd (a company listed on the Shenzhen Stock Exchange, stock code: 300033) since March 2020. Mr. Zhao served for Anhui Genuine New Materials Co.,Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603429) since April 2020. Mr. Zhao acted as an independent director of Baocheng Futures Co., Ltd. (寶城期貨有限責任公司) (a subsidiary of China Great Wall Securities Co., Ltd., a company listed on the Shenzhen Stock Exchange, stock code: 002939) since December 2021.

Ms. Yang Jie (楊婕), aged 44, was appointed as an independent non-executive Director on 29 June 2020. Ms. Yang was also appointed as the chairman of the nomination committee and the member of the audit committee of the Company. Ms. Yang graduated from Zhongnan University of Economics and Law and obtained a Master of Laws degree in International Economic Law.

Ms. Yang has many years of experience in IPO, mergers and acquisition and reorganization, private equity investment, bonds and other fields. From September 2006 to March 2010, Ms. Yang served at Grandall Legal Group (Hangzhou). From April 2010 to April 2013, Ms. Yang served at the Investment Banking Department of GF Securities Investment Holding Co. Ltd. (廣發證券投資股份有限公司). From May 2013 to January 2023, Ms. Yang served at T&C (Zhejiang) Law Firm (浙江天冊律師事務所). Since January 2023, Ms. Yang joined Beijing Grandway (Hangzhou) Law Offices (北京國楓(杭州)律師事務所).

From 2016 to 2019, Ms. Yang served as an independent director in Qibu Corporation Limited (a company listed on the Shanghai Stock Exchange, stock code: 603557). From June 2018 to December 2021, Ms. Yang served as an independent director in Coma Wisdom Technology Holdings Co., Ltd.* (西馬智慧科技股份有限公司). Since April 2019, Ms. Yang served as an independent director in Zhejiang Zhongkong Technology (Holdings) Co., Ltd.* (浙江中控技術股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 688777). Ms. Yang serves as an independent director in Zhejiang Dali Technology Co., Ltd. (浙江大立科技股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002214) since April 2019.

SUPERVISORS

Ms. Zhou Mingwan (周明萬), aged 35, was appointed as a Supervisor with effect from 29 June 2020. Ms. Zhou graduated from Harbin University of Commerce in 2011 and obtained a bachelor degree in management (majoring in accounting). From August 2011 to July 2013, Ms. Zhou was involved in financial work in Deqing County Dexin Wine Co., Ltd.* (德清縣德信酒業有限公司) under Zhejiang Sunrise Group* (浙江商源集團). From August 2013 to November 2014, Ms. Zhou acted as a financial supervisor in Zhejiang Asti Electronic Co., Ltd.* (浙江雅士迪電子有限公司). From March 2015 to February 2018, Ms. Zhou acted as deputy manager and manager in the Financial Department of the Company successively. Ms. Zhou acted as a manager in the Financial Department of Deqing Jinhui Micro-finance Company Limited from February 2018 to August 2020. From August 2020 to February 2023, Ms. Zhou acted as deputy general manager and chief financial officer in Deqing Yulong Tourism Development Company Limited* (德清御隆旅遊開發有限公司). Since February 2023, Ms. Zhou acted as head of finance department in Zhejiang Nazhong New Material Technology Company Limited*(浙江納眾新材料科技有限公司). Ms. Zhou obtained an intermediate accountant title in 2016 and obtained a nonpracticing certified public accountant certificate in 2018.

Mr. Wang Peijun (王培軍), aged 49, was appointed as the Supervisor with effect from 8 August 2014. From September 1994 to August 1997, Mr. Wang studied marketing courses provided by Anhui University (安徽大學), and obtained a graduate certificate from Anhui University in August 1997. In January 2011, Mr. Wang graduated from the college of online education of Chongqing University (重慶大學) majoring in engineering management (engineering cost management)* (工程管理(工程造價管理方向)) with a college diploma (專科文憑).

From September 1992 to December 2003, Mr. Wang worked as a manager of the sales department at Zhejiang Jiefang Decoration Engineering Co., Ltd.* (浙江解放裝飾工程有限公司), a company primarily engaged in interior design and design and installation of glass wall, steel and aluminium alloy doors and window frames. Since January 2004, Mr. Wang has been the general manager of Deqing Hong Yuan Decoration Company Limited* (德清宏遠裝飾有限公司), a company primarily engaged in interior design and design and installation of steel and aluminium alloy doors and window frames.

On 8 November 2006, Mr. Wang was recognized as a construction engineer* (建築施工工程師) by Quzhou City Personnel Labour Social Security Bureau* (衢州市人事勞動社會保障局, currently known as Quzhou City Human Resources and Social Security Bureau* (衢州市人力資源和社會保障局)).

Mr. Chen Qi (陳琦), aged 41, was appointed as a Supervisor with effect from 11 March 2022. Mr. Chen graduated from the Zhejiang University of Technology (浙江工業大學) in 2004 and obtained a bachelor degree in arts (majoring in English). From 2004 to 2007, Mr. Chen studied at Université Paris VIII (majoring in plastic arts), where he obtained a bachelor degree in 2005 and a master's degree in 2007 respectively. From 2017 to 2020, Mr. Chen successively obtained a master's degree in management from McGill University, Canada and a master's degree in business administration from Zhejiang University (浙江大學).

From 2008 to 2011, Mr. Chen worked at MOBILIER EUROPEEN. From 2011 to 2013, he served as an advisory consultant of ABC Portage. From 2014 to 2016, Mr. Chen was an employee of ORPEA. From 2016 to 2020. Mr. Chen acted as the person-in-charge of the PRC office of Viab International. From August 2020 to January 2021, Mr. Chen served at Jinhui Micro-finance. Since February 2021, Mr. Chen joined the Company and was appointed as the assistant to the general manager and the head of the green-finance development department.

SENIOR MANAGEMENT

Ms. Yao Lifen (姚莉芬), aged 33, was appointed as a secretary to the Board with effect from 19 March 2021. Ms. Yao graduated from Keyi College of Zhejiang Sci-tech University and obtained a bachelor of journalism degree.

Ms. Yao has many years of experience in terms of investor relationship management and information disclosure. From August 2011 to December 2013, Ms. Yao served as the representative of securities affairs in Zhejiang Jolly Pharmaceutical Co., Ltd (a company listed on the Shenzhen Stock Exchange, stock code: 300181). From January 2014 to April 2014, Ms. Yao worked in Administration Department and Office of the Board of our Predecessor Company. From April 2014 to March 2021, Ms. Yao served as the representative of securities affairs of the Company. From April 2014 till now, Ms. Yao acted as deputy head officer and head officer in Administration Department (currently known as Office) of the Company successively.

In November 2011, Ms. Yao obtained a qualification certificate for secretary to board of directors* (董事會秘書資格證書) issued by the Shenzhen Stock Exchange. From June 2015 to July 2016, Mr. Yao attended core programmes of corporate business management of Zhejiang University and obtained a training certificate. From July 2017 to August 2018, Ms. Yao attended management related training of Fudan University and obtained a training certificate. From September 2020 to October 2021, Ms. Yao attended Enterprises Listing and Board Secretary Practice courses (企業上市與董秘實務課程) of School of Management of Fudan University.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EXPLANATION ON REPORT PREPARATION

Scope of Report Time:

This report is an annual report with a time span between 1 January 2022 and 31 December 2022 (except when specifically indicated).

Scope of Report Organization:

It covers Zuoli Kechuang Micro-finance Company Limited (the "**Company**") and three subsidiaries (collectively, the "**Group**").

Basis for Report Preparation:

This report is prepared based on The Stock Exchange of Hong Kong's "Guide for Environmental, Social and Governance Reporting" ("**Guide for ESG Reporting**").

Data Explanation:

In the report, some of the financial data is from the financial statements of Zuoli Kechuang Micro-finance Company Limited for 2022 (which have been audited by KPMG). Other data is mainly from the Group's internal system and the statistics from the respective subsidiaries.

Guarantee Method for the Report:

The Company has completed the internal review of this report, and the report has been approved by the Board.

This report has been submitted to KPMG Huazhen LLP to conduct limited assurance in accordance with the "Hong Kong Standard on Assurance Engagements 3000 — Assurance Engagements Other than Audits or Reviews of Historical Financial Information (Revised)" (HKSAE 3000).

Publication Method of the Report:

This report is published in printed form and electronic form, and the electronic form is available at the Company's website (www.zlkcxd.cn).

Contact Method:	Office of the Board of 佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited*)
Address:	No. 399 Deqing Avenue, Wukang Road, Deqing County, Zhejiang Province
Postal Code:	313200
Tel:	0572–8219619

CHAIRMAN'S STATEMENT

The year 2023 marks the grand launch of full implementation of the spirit of the 20th National Congress suggested by the Communist Party of China. As the concepts of carbon peak and carbon neutrality become more widespread, the future of green finance is promising with great market potential, providing us better opportunity to explore green development.

Zuoli Kechuang Micro-finance Company Limited is the largest licensed micro-finance company in Zhejiang Province, and we are committed to providing financing solutions with flexible terms to AFR (三農) customers, SMEs and online retailers via rapid, effective and comprehensive loan assessment and approval procedures to meet different customers' needs. The Group always adheres to the concept of "compliant operation" and has continuously accumulated strong capital base to establish extensive customer bases in line with its business scale.

Since the inception of the Company, we proactively respond to the advocate of government policies on supporting "AFR (三農)". We place our business focus on helping farmers, agriculture and villages related operating activities, and seriously deals with the issue of difficult financing for local SMEs in Huzhou City. As such, the Company's key customers primarily consist of groups engaging in agriculture business, rural development activities, and residing in rural areas, SMEs and micro enterprises engaging in different industries, as well as online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products. To respond to the call of national environmental protection policies and the pilot green finance reform program in Huzhou, the Company declined the provision of loans to those enterprises with high energy consumption, high pollution and high emission level. Meanwhile, we have insisted on green and scientific development, launched new green financial products, and actively granted green loans to the green project, ecological tourism, photovoltaic power generation, forestry seedling and other environmental-friendly and energy-saving industrial projects to promote the development of a green economy in the region.

In terms of the assumption of social responsibilities, "donation of warm clothes for students in Yushu primary school" has become an internal traditional campaign of the Company. In cooperation with "Yinxing Fund", the Group expresses its condolences and care to disadvantaged families in the county annually before the Spring Festival. The Group grants loans for the start-up of disadvantaged groups totalling RMB1.24 million and loans to the education system totalling RMB1.04 million. The Company strongly supported poverty-stricken students and provided interest-free student loans to them.

The Group strives to maintain a high standard of corporate governance. Adhering to protecting the lawful interests of our clients, anti-money laundering, anti-counterfeit money, combating illegal fund-raising and anti-corruption and anti-commercial bribery, the Group have implemented measures to strictly comply with the relevant legislations and regulations of the place where the Group's shares are listed on. Being a listed company, we put strong emphasis on safeguarding the interests of Shareholders. The Board of the Company has established the following committees: The Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Loan Approval Committee to form an accountability system for ensuring decisions made by the Group's senior management are complied with the internal control system and regulatory requirements and in the interests of Shareholders.

In recent years, the government has been insisting on improving green financial policies, promoting financial institutions to vigorously develop green finance and innovate green financial products and services. It actively support the development of green industries to promote the overall green transformation of economy and society. As a pilot unit of green micro-finance, the Company will explore the experience that can be promoted and replicated for Huzhou Green Finance Reform (湖州綠色金改) to provide a representative example for the industry.

1. ABOUT US

1.1. Company Profile

The Company (formerly known as "Deqing Zuoli Kechuang Micro-finance Company Limited* 德清佐力科創小額貸款有限公司") was incorporated on 18 August 2011. On 28 April 2014, the Company was converted into a joint stock limited liability company. On 13 January 2015, the shares of 佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited*) were successfully listed on The Stock Exchange of Hong Kong Limited (stock code: 6866).

The Company is currently located in Deqing County, Huzhou City, Zhejiang Province. In 2015, the Company successfully acquired Deqing Jin Hui Micro-finance Co., Ltd (德清金匯小額貸款有限公司). In 2016, the Company successfully acquired Hangzhou High-tech District (Binjiang) Xingyao 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). In terms of registered capital, the Group is currently the largest micro-finance company in Zhejiang Province.

Facing the current economic conditions, the Group is committed to serving small and micro enterprises and AFR (三農) customers and supporting the real economy, and adheres to our development strategies of enhancing professional development, win-win cooperation, green empowerment and digital empowerment:

(1) Enhancing professional development. The Group focuses on our target customers and enhanced management by creating standardised products;

(2) Win-win cooperation. Through self-development and cooperation with different platforms, the Group fully utilizes cluster resources on social platforms;

(3) Green empowerment. The Group actively responds to and implement the concept of green financial reforms and innovations to delve into the potential of green business;

(4) Digital empowerment. The Group leverages digital empowerment to drive innovation so as to improve effectiveness and service quality through technological means.

1. ABOUT US (Continued)

1.1. Company Profile (Continued)

1.1.1. Corporate Culture

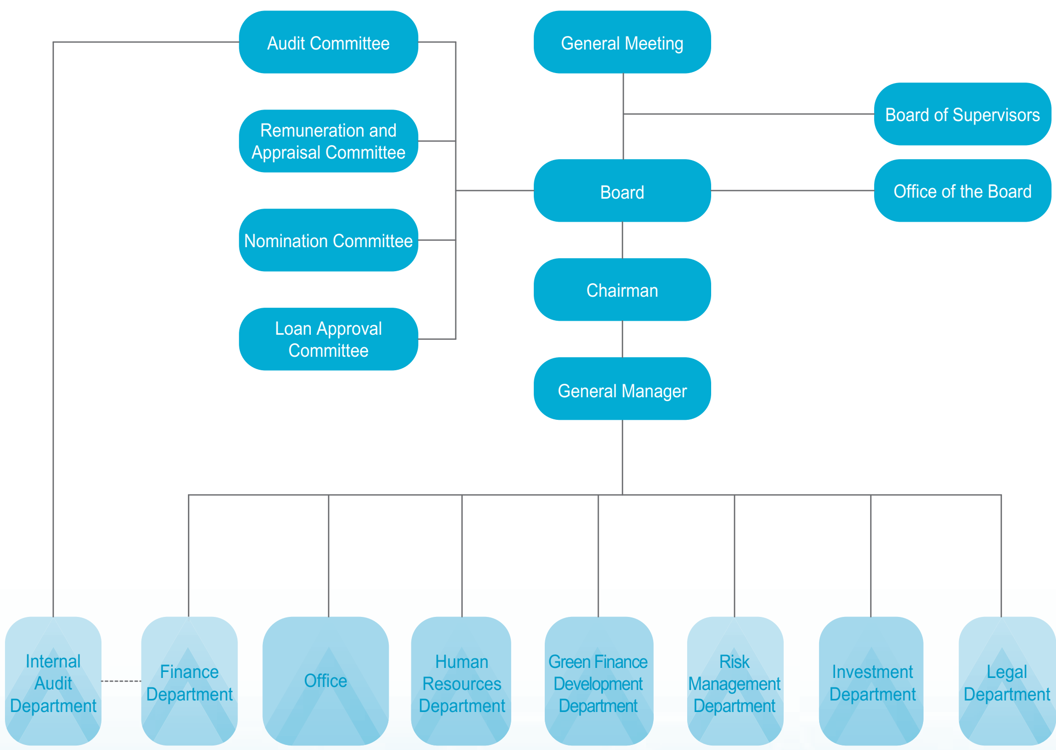
Corporate culture is the soft power of corporate development. Culture matching with the development of the Company will strengthen staff cohesion and encourage them to provide better services for achieving the Company's strategies. The Group continues to develop its business while emphasizing on cultivating corporate culture. The Group have already established a culture system focusing on vision, mission, core values, and philosophies of operational management, talent and responsibility.

Vision:	Creating a local financial organization of green inclusiveness
Mission:	Practicing the philosophy of green inclusiveness, assisting in customers' development, concerning staff development, performing social responsibilities and enhancing Shareholders' value
Core Values:	Honesty, innovation, responsibility, win-win
Philosophy of Operational Management:	Stringent, flexible, efficient, united, sincere, amiable
Philosophy of Talents:	Without sticking only to one specific pattern and pay equal attention to ability and integrity to build a professional and diversified talent team
Philosophy of Responsibilities:	Developing innovative financing business, taking social responsibilities, promoting diversified development and practicing the philosophy of green inclusiveness

1.1.2. Corporate Governance

The Group is committed to maintaining a high standard of corporate governance and publicly safeguarding the interests of Shareholders. (Please refer to Corporate Governance Report for details)

Corporate Governance Structure:



1. ABOUT US (Continued)

1.2. Table of Key Performance

Key Performance Indicators[1]	Unit	2022	2021
Economic Performance			
Net interest income	RMB0'000	**19,834**	21,788
Total profit	RMB0'000	**13,260**	17,316
Net profit attributable to shareholders of the parent company	RMB0'000	**9,334**	11,649
Basic earnings per share	RMB	**0.08**	0.10
Total assets	RMB0'000	**278,764**	265,121
Total liabilities	RMB0'000	**82,612**	72,259
Impaired loan ratio	%	**4.69**	4.60
Provision coverage ratio	%	**155.91**	159.96
Social Performance			
Total taxes paid	RMB0'000	**6,329**	6,108
Total donations	RMB0'000	**1**	12
Total employees	person	**94**	118
Including: Male employees	person	**39**	55
Female employees	person	**55**	63
Ethnic-minority employees	person	**1**	2
Turnover rate of employees (under contracts)	%	**27.12**	22.31
Total training input	RMB0'000	**15**	8
Social contribution per share	RMB/share	**0.19**	0.21
Environmental Performance			
Remaining balance of internet loans	RMB0'000	**2,691**	2,784
Per capita urban electricity consumption	kWh/person	**3,005.98**	2,866.08
Per capita urban water consumption	ton/person	**49.40**	29.54
Per capita copy paper consumption	kilogram/person	**3.15**	4.49

[1] Indicators in the above table are data of "the Group"

1.3. Honours

The operational strategy of the Group is strengthening the leading role of the Group in the industry of microfinance companies in Zhejiang province, promoting the Group to become the first choice of non-bank credit for customers in its regions of operation. Additionally, the Group plays an active role in taking relevant environmental, social and economic responsibilities. The Group continues to reinforce corporate governance, strongly supports education and "AFR (三農)" business in the regions of operation and provides the poor families and disabled with consolation funds in order to contribute our efforts to create a harmonious and sustainable social environment.

1. ABOUT US (Continued)

1.3. Honours (Continued)

During the reporting period, the Group received the following social recognitions:

In February 2022, the Company was recognized as an excellent unit in the Construction of National Green Finance Reform and Innovation Pilot Zone in Huzhou in 2021 (2021年度湖州市國家綠色金融改革創新試驗區建設優秀單位);

In February 2022, the Company was recognized as an outstanding unit of local financial organization in 2021(2021年度地方金融組織優秀單位);

In February 2022, the Company won the first prize in the Integrated Assessment of Financial Support for Local Economic Development in 2021 (2021年度金融支持地方經濟發展綜合考評類一等獎);

In March 2022, the Company was recognized as an advanced unit in communication and reporting in 2021(2021年度通訊報道先進單位);

In November 2022, "Led by Innovation, Empowered by Technology, to Achieve Green + Digital Sustainable Development (以創新引領、以科技賦能，走綠色+數字的可持續發展信貸道路)" was included in the "Collection of Typical Cases of Financial Inclusion in China (2022)(中國普惠金融典型案例集錦(2022))";

In December 2022, the Company was awarded the "Grade A Outstanding Micro-finance Company of Zhejiang Province" (浙江省A級優秀小額貸款公司) by Zhejiang Provincial Financial Supervision and Administration Bureau (浙江省地方金融監督管理局).

1.4. Analysis of Stakeholders

To promote the development of the Company, the Group further improved the communication with stakeholders and responded to demands of stakeholders in a timely and sincere manner in 2022.

The stakeholders identified by the Group include:

Stakeholders	Expectations and demands	Forms of Communication	Response Measures
Government	1. Facilitating economic development 2. Adhering to anti-corruption and clean governance 3. Energy conservation and emission reduction 4. Green operation 5. Popularizing financial knowledge	1. Government documents 2. Interviews 3. Reporting statistics 4. National initiative 5. Green charity activities	1. Facilitating economic development of the regions of operation 2. Supporting small and micro enterprises and AFR (三農) 3. Steady increase in taxes paid 4. Promoting paperless office 5. Promoting energy conservation and emission reduction in operation

1. ABOUT US (Continued)

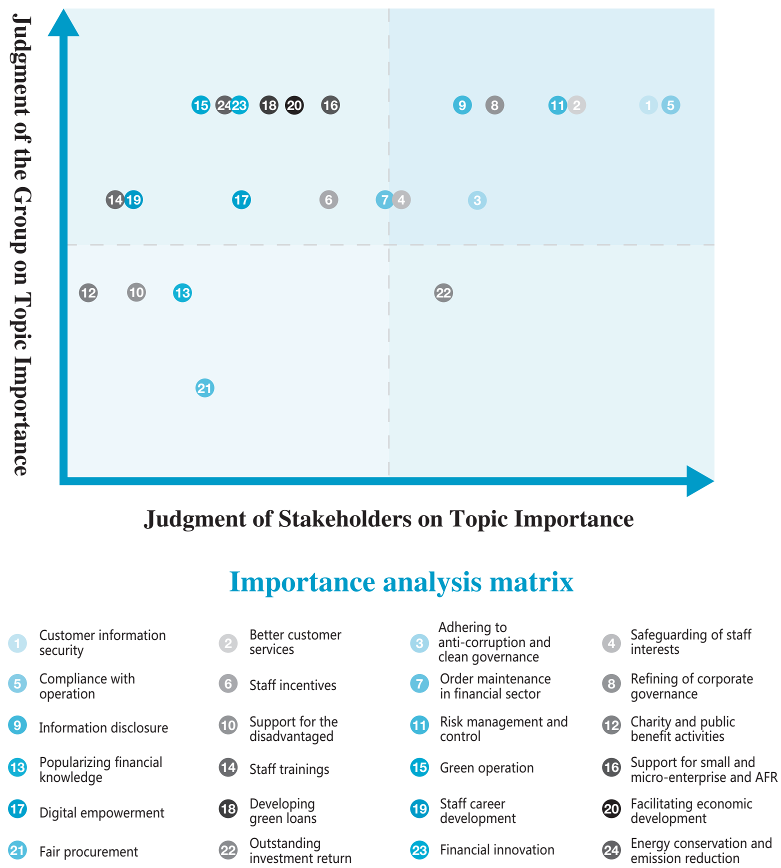
1.4. Analysis of Stakeholders (Continued)

Stakeholders	Expectations and demands	Forms of Communication	Response Measures
Regulatory bodies	1. Compliance with regulations 2. Risk management and control 3. Order maintenance in financial sector	1. Policies and regulations 2. Year-end appraisal 3. Industry conference 4. Work reporting	1. Refined corporate governance 2. Compliance with regulatory policies and regulations 3. Stringent control of risk 4. Cooperating in assessment
Shareholder	1. Refining of corporate governance 2. Outstanding investment return	1. General meeting 2. Periodic announcements	1. Steady operation, refined allocations of dividends 2. Improving operational performance
Customer	1. Customer information security 2. Digital empowerment 3. Support for small and micro enterprises and AFR (三農) 4. Developing green loans 5. Better customer services 6. Assisting the disadvantaged 7. Information disclosure 8. Financial innovation	1. Customer feedbacks 2. Official website 3. Third party platform	1. Further developing technology finance 2. Better protection of customer interests 3. Better service quality 4. Increasing loans to small and micro enterprises and AFR (三農) 5. Providing supporting loans for the disadvantaged 6. Improving the information disclosure process
Supplier	Fair procurement	1. Procurement information 2. Negotiation 3. Procurement contract	1. Refined management system of suppliers 2. Establishment of long-term partnership with suppliers
Employee	1. Staff career development 2. Safeguarding of staff interests 3. Staff remuneration and benefits 4. Staff trainings	1. Employee representatives' congresses 2. Periodic internal communication	1. Safeguarding basic interests of staff 2. Organizing cultural and sports activities and trainings 3. Listening to employee viewpoints 4. Refined remuneration and incentive schemes
Community	Charity and public benefit activities	Field visits	Organizing charity and donation activities

1. ABOUT US (Continued)

1.5. Importance Analysis Matrix

The Group identified topics according to the requirements under Guide for ESG Reporting and survey results after considering the demand of stakeholders and the long-term strategic development of the Company.



2. ECONOMIC RESPONSIBILITIES

Zhejiang Province is one of the provinces with the smallest difference of economic development in the PRC. Its economic development mainly relies on the robust growth of SMEs. Along with the gradual transformation of the economic development pattern in the PRC, diversified and dynamic SMEs and micro enterprises play more and more vital roles in the market.

The rapid growth of the Group in a short period relied on the economic support of the regions of operation. Being one of the few listed companies in Huzhou City, the responsibilities of the Group lay in supporting the economic development and improving the livelihoods in the regions of operation. Along with the development of market economy, the Group is committed to providing supply chain finance services to customers, especially SMEs. This systematic financial arrangement targeting all members in a supply chain not only achieved mutual benefits and win-win situations between the Group and its customers, but also provided a more convenient financing channel for SMEs.

2. ECONOMIC RESPONSIBILITIES (Continued)

In April 2020, the Group became the first green micro-finance pilot unit in Huzhou City, clearly specified that the Group will explore a replicable and spreadable green micro-finance model, so as to develop with "green" empowerment. Meanwhile, the Company will insist on the inclusive concept to provide service and support for "AFR (三農)", real economy and green industry.

2.1. Promoting economic development

2.1.1. Supporting local economic development

According to the requirements of Zhejiang Provincial Financial Regulatory Bureau (浙江省地方金融監督管理局), non-online loans of micro-finance companies can only be invested in their regions of operation (the regions of operation of the Group are Huzhou City and Binjiang District, Hangzhou City). Therefore, non-online loans of the Group can efficiently promote the economic growth of our regions of the operation.

As of 31 December 2022, the balance of non-online loans of the Group was RMB2,813.91 million(excluding accrued interests), representing an increase of RMB186.06 million as compared with the balance of non-online loans of RMB2,627.85 million (excluding accrued interests) as of 31 December 2021.

2.1.2. Supporting real economies

For the purpose of meeting the genuine demand of diversified and differentiated customers and contributing to the development of real economies, various corporate loan balances granted by the Group for supporting real economies amounted to RMB1,110.48 million (excluding accrued interests) as of 31 December 2022, representing an increase of RMB94.25 million as compared to that of RMB1,016.23 million (excluding accrued interests) as of 31 December 2021.

2.1.3. Supporting the growth of micro-to-small enterprises

The Group has adhered to the idea of supporting the growth of micro-to-small enterprises in our operation. In the extent of efficient risk management control, the loan balance granted by the Group to sole proprietors amounted to RMB933.92 million (excluding accrued interests) as of 31 December 2022, representing an increase of RMB171.60 million as compared with RMB762.32 million (excluding accrued interests) as of 31 December 2021.

2.1.4. Supporting "AFR (三農)" development

China is a large agricultural country, however, the "AFR (三農)" issues faced by the PRC require prompt solutions. In 2022, under the premise of effective credit risk control, the Group actively involved in promoting development of "AFR (三農)" business in the regions of operation through various measures. As of 31 December 2022, the Group's offline loan balance for "AFR (三農)" amounted to RMB2,435.03 million (excluding accrued interests), increased by RMB223.07 million as compared to that of RMB2,211.96 million (excluding accrued interests) in 2021.

2. ECONOMIC RESPONSIBILITIES (Continued)

2.1. Promoting economic development (Continued)

2.1.5. Supporting green development

As the pilot unit of green micro-finance company in Huzhou City, the Company adheres to green oriented and scientific development, and grants green loans to the green project, environmentally-friendly materials, photovoltaic projects, forestry seedling and other environmental-friendly and energy-saving industrial projects, aiming to help customers develop or optimise low-carbon and environment-friendly products and further promote their green transformation. Currently, the Company has developed green project products in the areas of distributed photovoltaic power generation, energy-saving home appliances, energy-saving building materials, water-saving agriculture and new energy-saving materials. As of 31 December 2022, the balance of green loans of the Company is RMB568.95 million (excluding accrued interest).

2.2. Facilitating improvement in livelihood

The Group has been placing great concerns on the development of educational business, and endeavoured to satisfy the capital needs required by developing educational business. As of 31 December 2022, the loan balance for educational business of the Group amounted to RMB3.81 million (excluding accrued interests). As of 31 December 2021, the loan balance for educational business of the Group amounted to RMB4.27 million (excluding accrued interests). In 2022, the Group granted interest-free loans in an accumulated amount of RMB40 thousand to poverty-stricken university students in cooperation with charity organizations.

2.3. Digital Empowerment and Green Empowerment

On 29 October 2020, the Recommendations of the Central Committee of the Communist Party of China for Formulating the 14th Five-Year Plan for Economic and Social Development and Long-Range Objectives through the Year 2035 was officially released, proposing to improve the level of financial technologies and enhance financial inclusiveness.

On 1 March 2021, the Regulations on the Promotion of Digital Economy in Zhejiang Province (《浙江省數字經濟促進條例》) officially came into effect, which clarified the goal of building a digital economy in Zhejiang Province, and proposed to accelerate the development of digital economy and build a high ground for global digital transformation.

The Group actively advanced the transformation to green micro-finance by integrating green services into the entire loan process using the green loan information management system, which was independently developed by our technical team. The system conducts intelligent identification of green loans based on data on the environment, policies, industries and enterprises, and it is the first green system in the micro-finance industry in China to receive a national software copyright certificate.

The Group actively cooperates with international investors to introduce international green ideas and technologies. GCPF (Global Climate Partnership Fund) and DEG (a wholly-owned subsidiary of KfW (德意志復興銀行)) have launched TA technical assistance projects for the Group. The Group engaged IPC (a German professional credit consultancy firm) and PRA (a Hong Kong professional credit consultancy firm) to provide professional training and advice on the Group's green loans in terms of assessment and measurement of carbon dioxide emission reduction and construction of environmental and social management systems, so as to stimulate and motivate the Group to continuously improve its green capacity building.

3. ENVIRONMENTAL RESPONSIBILITY

Since the early stage of incorporation, the Group has regarded the environmental and resource protection as our essential responsibility. The Group has been strictly complying with relevant legislations and regulations such as the Atmospheric Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and the Water Law of the People's Republic of China (《中華人民共和國水法》).

The Group pays attention to the impact of daily operations on the environment and society, and strives to set a role model for society. While operating business, the Group works hard to meet the interests of economy, environment, society and corporate governance to achieve the best balance. To this end, the Group has formulated the Environmental, Social and Governance Policies and Procedures Manual (《環境、社會及管治政策和程序手冊》) to make clear regulations and requirements on the environmental, social and governance aspects to support the long-term development of the Company.

The Group strictly implemented the waste sorting system according to the Guidelines for the Sorting and Disposal of Domestic Waste in Deqing County (《德清縣生活垃圾分類投放指南》), and added waste sorting bins. Meanwhile, it carried out publicity, education and advocacy work on waste sorting within the Group to enable employees to establish environmental awareness of waste sorting.

In April 2022, as one of the first trading customers from Deqing County, the Group purchased 372 tons of carbon sinks to achieve its own carbon neutrality.

3.1. Green operation

The Group applied the ideas of environmental protection in the operation. As enterprises with "three high emission indicators" (high pollution, high energy consumption, high emission) were the main sources of environmental pollutants, the Group did not provide any financial support to those enterprises, but tried to provide more convenient financial services to enterprises engaging in businesses which are beneficial to landscaping such as distributed photovoltaic power generation, energy-saving home appliances, energy-saving building materials. In this regard, the Group has updated its environmental and social policy and exclusion list to further clarify the investment direction of loans.

The Group conducts environmental and social risk due diligence on the customers to whom GCPF green funds (GCPF綠色專項資金) are allocated, so as to timely identify customers' environmental and social issues to be improved, such as the need to improve emergency plans, improve human resources policies and amend environmental assessment registration. At the same time, based on the identified issues, we also develop environmental and social action plans for our customers and set timelines for improvement. In addition, to better monitor the green operation status of our customers, the Group has included comprehensive environmental and social clauses in customer loan contracts, including requiring customers to submit environmental and social related (ES) incident reports and fill out ES questionnaires annually.

3. ENVIRONMENTAL RESPONSIBILITY (Continued)

3.2. Emission[2]

"Travelling by green method — Start from me" is the idea of environmental protection of the Group. The Group believes that the essential solution to improving air quality lays in the reduction of harmful gas emission. Accordingly, the Group formulated policies and insisted to pay great attention on the vehicle conditions in the environmental aspect when procuring vehicles for corporate use in daily operation. Also, the Group minimised its frequency of vehicle uses and encouraged its employees to travel by public transports in order to make our best effort to cultivate a good environment.

As of 31 December 2022, the Group did not emit any hazardous and non-hazardous wastes.

The Group promotes environmental improvement with financial services. As of 31 December 2022, 11 photovoltaic power generation projects funded by the Group's loan have been completed, with a total capacity of 5.86 MW. It is calculated that the annual power generation capacity of the 5.86 MW photovoltaic projects is approximately 5.86 million kWh, which would save approximately 1,800 tons of standard coal and reduce carbon dioxide emissions by approximately 4,400 tons per year.

Waste gas emission[3]:	Unit	**2022**	2021
Nitrogen Oxides (NO_X) emission of vehicles	kilogram	**83.52**	94.68
Emission of Nitrogen Oxides (NO_X)	kilogram	**83.52**	94.68
Sulphur dioxide (SO_2) emission[4]	kilogram	**0.13**	0.15
Particulate emission[5]	kilogram	**7.99**	9.02

Emission of greenhouse gas[6]:	Unit	**2022**	2021
Direct greenhouse gas emission of fuels in stationary sources (CO_2 equivalent)	ton	**4.11**	4.73
Direct greenhouse gas emission of vehicles (CO_2 equivalent)	ton	**21.49**	24.65
Direct greenhouse gas emission and reduction (CO_2 equivalent)	ton	**25.60**	29.38
Energy indirect greenhouse gas emission (CO_2 equivalent)[7]	ton	**229.60**	274.81
Other indirect greenhouse gas emission (CO_2 equivalent)[8]	ton	**1.42**	2.54
Total greenhouse gas emission (CO_2 equivalent)	ton	**256.62**	306.73
Greenhouse gas emission per capita (CO_2 equivalent)	Ton/person	**2.73**	2.60

3. ENVIRONMENTAL RESPONSIBILITY (Continued)

3.2. Emission[2] (Continued)

2 The calculation of emissions is mainly with reference to the "Reporting Guidance on Environmental KPIs", published by HKEx

3 Figures in the above table are data of "the Group"

4 Mainly refers to Sulphur dioxide (SO_2) emission of vehicles

5 Mainly refers to particulate emission of vehicles

6 Figures in the above table are data of "the Group"

7 Mainly includes greenhouse gas emission of electricity consumption

8 Mainly includes greenhouse gas emission resulted from public transports

3.3. Use of Resources

The Group conserves water and electricity in the operation: in order to further increase the environmental awareness of our staff, the Group included the concepts of conserving water, resources, and electricity and avoiding wastage in written form in our company constitution, specifically including the conditions and principles of using high electrical consumption appliances such as air conditioners, computers and lamps. Meanwhile, the Group required the staff to save water. The Group's water consumption per capita in 2022 was 49.42 tons/person.

The Group obtains water from the water company within its jurisdiction.

As of 31 December 2022, the Group did not produce any finished products, and did not use any packaging materials for finished products.

Use of resources[9]	Unit	2022	2021
Electricity consumption	kWh	**282,562.26**	338,197.50
Electricity consumption per capita	kWh/person	**3,005.98**	2,866.08
Oil consumption	litre	**9,104.69**	10,445.91
Oil consumption per capita	litre/person	**96.86**	88.52
Gas consumption	cubic meter	**1,759.29**	2,188.67
Gas consumption per capita	cubic meter/person	**18.72**	18.55
Water consumption	ton	**4,645.63**	3,485.97
Water consumption per capita	ton/person	**49.42**	29.54
Copy paper consumption	kilogram	**296.06**	529.37
Copy paper consumption per capita	kilogram/person	**3.15**	4.49

9 Figures in the above table are data of "the Group"

4. SOCIAL RESPONSIBILITIES

4.1. Staff

Staff is not only a component of the operation of the Company, but also a base for establishing long-term relationship with customers. Meanwhile, staff's action represents the corporate image of the Group at all times. The core of human resource works of the Group is to attract and retain talents. The Group facilitated the staff career development through comprehensive performance assessment system and effective communication mechanisms, and improved their competency through staff trainings.

The Group strictly complied with the relevant legislations and regulations such as the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), amongst other related regulations.

The Group respects gender, age, ethnicity and religion of every individual staff. Discrimination against individual difference among staff is strictly prohibited. The Group strictly complied with the relevant legislations and regulations and strictly prohibited the employment of child labor or forced labor. As of 31 December 2022, the Group did not employ any child labor or forced labor.

The Group paid attention to the work-life balance of staff. We also led our staff to reward the society through various channels.

Statistics of staff[10]	Unit	**2022**	2021
Male staff	person	**39**	55
Female staff	person	**55**	63
	person	**94**	118
Ethnic minorities	person	**1**	2
Han ethnic group	person	**93**	116
	person	**94**	118
Master's degree	person	**4**	6
Bachelor's degree	person	**52**	57
Tertiary education level	person	**27**	32
Below tertiary education level (exclusive)	person	**11**	23
	person	**94**	118
30 years old and below	person	**28**	39
31–40 years old	person	**42**	57
41–50 years old	person	**19**	16
51 years old and above	person	**5**	6
	person	**94**	118

10 Figures in the above table are data of "the Group"

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

Statistics of staff	Unit	2022	2021
Within Zhejiang province	person	**89**	100
Outside Zhejiang province	person	**5**	18
	person	**94**	118
Contracted staff	person	**94**	118
Resigned staff	person	**32**	27
Turnover rate of male staff	%	**36.36**	22.41
Turnover rate of female staff	%	**19.05**	22.22
Turnover rate of staff within Zhejiang Province	%	**18.00**	22.64
Turnover rate of staff outside Zhejiang Province	%	**77.78**	20.00
Turnover rate of staff of 30 years old and below	%	**45.45**	33.33
Turnover rate of staff of 31–40 years old	%	**24.56**	16.39
Turnover rate of staff of 41–50 years old	%	**4.55**	30.77
Turnover rate of staff of 51 years old and above	%	**33.33**	14.29
Staff turnover rate	%	**27.12**	22.31

4.1.1. Communication

Effective communication mechanism helps to ease doubts in staff career development and encourages our staff to devote into their work. The Group gathers opinions on the Company's development and culture from our staff every year by various means, including quarterly conferences between departmental management and staff, staff development activities, "Lectures from senior management* (高管一堂課)".

The management of the Group informs staff the latest development status and future development planning of the Company in a timely manner. The Group believes that efficient two-way communication between the management and staff is an indispensable element of the sustainable development of the Company.

4.1.2. Staff career development

The Group sets up comprehensive performance assessment system and administrative measure for promotion to encourage our staff to improve their performance. The Group also provides clear promotion ladders for our staff.

For business departments, the Group assesses staff performance by specific performance indicators of different business lines. For non-business departments, the Group assesses staff performance and ability by KPI (key performance indicator).

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

4.1.3. Training

Staff training[11]	Unit	2022	2021
Total training expense	RMB0'000	**15**	8
Training participants	Person-time	**841**	1,008
Training expense per capita	RMB'000/ Person	**1.64**	0.68
Total training time	Hour	**80**	168
Training time per capita	Hour/ Person-time	**1.16**	1.62
Number of senior staff participating in training	Person	**8**	10
Training time of senior staff per capita	Hour/ Person-time	**1.21**	1.47
Number of middle staff participating in training	Person	**24**	23
Training time of middle staff per capita	Hour/ Person-time	**1.22**	1.76
Number of junior staff participating in training	Person	**62**	81
Training time of junior staff per capita	Hour/ Person-time	**1.14**	1.58
Number of male staff participating in training	Person	**39**	48
Training time of male staff per capita	Hour/ Person-time	**1.19**	1.63
Number of female staff participating in training	Person	**55**	66
Training time of female staff per capita	Hour/ Person-time	**1.15**	1.62
Number of contracted staff participating in training	Person	**94**	114

11 Figures in the above table are data of "the Group"

The Group devotes adequate resources to staff trainings on professional skills, operation process of the Company, knowledge, corporate culture and morality every year in order to enhance our staff's abilities and the social influence of the Group, including staff induction trainings and several professional skill trainings after induction every year.

In 2022, the Group held internal training for employees on "Analysis of Credit Risk Management(淺析信貸風險管理)", "Corporate Governance and Information Disclosure(公司治理與信息披露)", "Exploration and Practice of Green Micro-finance(綠色小貸的探索與實踐)", "Photovoltaic Industry Chain(光伏產業鏈)", and "Risk Prevention and Control and Post-Loan Management of Microfinance Companies(小貸公司風險防控和貸後管理)". Furthermore, the Group offered a number of English learning courses and organised several English Corners for its employees with an aim to improve their English language level and proficiency for a better adaptation to international development. Meanwhile, under the green loan technical assistance program(綠色貸款技術援助項目), we provide training to employees on ESG awareness and assessment and construction for roof-top solar power photovoltaic facilities, to sufficiently promote their overall green capability construction standard.

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

4.1.4. Remuneration and benefits

The Group provides attractive remuneration packages. Also, the Group will show its best wishes and present a gift for every staff of the Group on their birthdays.

Pursuant to the requirements of Chapter 9 of the Labor Law, the Group is obliged to make timely and full contributions to "five insurance and one fund" (pension insurance, medical insurance, unemployment insurance, injury insurance, maternity insurance and housing provident fund) for all staff in accordance with local standards. The Group arranged working and resting time of staff pursuant to the requirements of Chapter 4 of the Labor Law in the aspects of working time, working intensity and official holidays. The Group also provides paid holidays to eligible staff.

4.1.5. Work-life balance

A good balance between work and life is beneficial to facilitate staff's better performance. Apart from strict compliance with the relevant requirements of national official holidays, the Group organises various recreational activities for its staff every year.

In March 2022, the Group organized a series of activities for Women's Day (三八婦女節) for employees. In May 2022, the Group organized a team-building walk at Xiazhu Lake for employees under the theme of "welcome the 20th national congress and make further achievements with unity of mind (喜迎二十大, 凝心聚力再創佳績)". In September 2022, the Group arranged a book reading activity for employees at the Staff House Bookstore (職工之家書屋). The Group organized a team-building activity of China Chic Carnival (國潮嘉年華) at the end of the year.

4.1.6. Occupational health and safety

Occupational health and safety of the staff are always concerns of the Group. During the reporting period, the Group provided body checks for staff and encouraged them to participate in cultural and sports activities for their health. The Group formulated regulations and organised staff trainings to increase their abilities of prevention from and emergency response to fire, thus lowering the risk of occupational safety of the staff.

4.2. Suppliers

The Group has a total of 6 suppliers, all are from Yangtze River Delta regions. Suppliers mainly provided document management, healthcare services and software technology services to the Group. Effective supply chain management is vital to the Group's operation.

Although supply chain management is not a main scope of the Company's operation as a service company establishing long-term and stable partnerships with suppliers will enhance the public image of the Company, and thus minimise the operational risk and thereby facilitate the Company's growth. For this purpose, the Group has formulated relevant guidelines of assessment, selection and supervision of suppliers. For assessing suppliers, the Group set multi-dimensional standards and different weights in the aspects of quality, price, health, environment, safety and morality. In judging suppliers, the Group strictly complies with the standards to select qualified and high-quality suppliers. The Group not only assesses their performance according to the assessment standards, but also flexibly considers their reputation and suitability to establish long–term and stable partnerships. In relation to substantial procurement or infrastructure projects, the Group has specific bidding policies to ensure fairness and equity. After confirming the suppliers, the Group will continue to supervise their performance and periodically conduct sample checking to ensure their performance meet the assessment standards of the Company.

4. SOCIAL RESPONSIBILITIES (Continued)

4.3. Customers

The Group adheres to the principle of anti-discrimination, and reject to provide unequal services to customer because of their gender, age, ethnicity and religious belief.

For the purpose of improving the service quality of the Group, the Group conducts site visits and regular visits in order to understand the actual demands and development targets of our customers. By establishing long-term and good relationships with customers, the Group efficiently supports the economic development of the regions of operation and indirectly facilitates employment of those regions. Meanwhile, the Group proactively acquires customer feedbacks, including surveys and feedbacks from phone interviews.

Opinions of customers are mainly gathered by staff of each business unit. By setting procedures of customer complaints, the Group ensures customers' opinions are efficiently collected and handled. Senior management will regularly review the suggestions from customers to learn from experience and recommend improvements to our staff, thereby improving the quality of service of the Group.

The Group insists to provide clear, transparent and comprehensive information to our customers. The Group introduces the clauses, articles and categories of our products to our customers in details.

4.3.1. Customer information security

The Group strictly complies with The Law of The People's Republic of China on Protection of Consumer Rights (《中華人民共和國消費者權益保護法》), the Company Law of the People's Republic of China (《中華人民共和國公司法》) and the Contract Law of the People's Republic of China (《中華人民共和國合同法》). In order to protect the legal interests of customers and secure business secrets of the Company, the Group has signed relevant confidential agreements with staff, and regulated the confidential obligations of staff in the Administrative Measures for Information Disclosure (《信息披露管理辦法》). Leakage and collection of customer information for private uses are strictly prohibited. An independent archival department is set up to centrally manage customer information. Access of customer information requires the written approval of general manager or deputy manager on the receipts.

4.3.2. Information disclosure

The Group is in strict compliance with the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and Regulations on Control of Advertisement (《廣告管理條例》) of the State Council. The Group formulated the Administrative Measures for Information Disclosure (《信息披露管理辦法》) to ensure the information in external advertisements is consistent and factual. Additionally, there are regulations on obligations, content, working procedures, permissions and allocation of duties of all related parties of information disclosure. For the Group's inside information, in order to maintain the fairness principle for information disclosure, prevent the abuse of the right to know and leak of inside information by relevant informed person, we have set up a registration form for informed person of inside information to keep independent record for each case. Disclosure of information on websites, Wechat or other media platforms requires the signed approval of the Board Office and the Board Secretary.

4. SOCIAL RESPONSIBILITIES (Continued)

4.3. Customers (Continued)

4.3.3. Better customer services

The Group is committed to providing a comfortable and safe environment for customers.

Customer services provided by the Group:

1. Environment aspect: refreshment and publication are provided for customers to create a good consultation environment;

2. Communication service: 400 telephone services, including business consultation, customer interviews, handling of complaints; company mailbox and investor phone service, providing investors with consultation services; and confirmation of lending information with the customers by phone and SMS reminders of repayment date and amount for the customers and etc;

3. Advertisement service: brochures, Wechat push and the road shows for products and services of the Company;

4. ES Action Plan: The Group conducts environmental and social risk due diligence on relevant customers, so as to timely identify customers' environmental and social issues to be improved, and at the same time, we also develop environmental and social action plans for our customers to support their green operation based on the identified issues.

4.4. Other social responsibilities

4.4.1. Product liabilities

The Group has devoted in providing grants and loans for poverty-stricken university students since its incorporation. In 2022, the Group granted RMB40 thousand interest-free loans for poverty-stricken university students accumulatively in the cooperation with the charity organizations.

4.4.2. Rewarding the society

The Group has been committed to making its contribution in creating a stable and sustainable society since its incorporation. During the reporting period, the Group actively participated in social charity activities according to the initiatives of the Financial Work Office of Zhejiang Province:

1. The Group actively participated in donation of winter clothes for primary school students in Yushu every year;

2. The Group donated RMB8 thousand to Deqing County's Charity Association (德清縣慈善總會).

4. SOCIAL RESPONSIBILITIES (Continued)

4.4. Other social responsibilities (Continued)

4.4.3. Adhering to anti-corruption and clean governance

After launching of eight policies of the Central government, the Group actively responded to the calls for people-orientation and rectification measures of undesirable trends like idleness and luxury. A practical and efficient operation is achieved in every aspect of the Company's operation to avoid extravagance and waste. In addition, the Group carried out internal punishment and prevention of corruption in the Company and fought against bribery. As of 31 December 2022, there was neither corruption in the Company, nor any concluded legal cases regarding corrupt practices brought against the Group or its staff.

The Group integrates integrity construction into our corporate governance. The Company combines integrity culture into work and life of employees through explicitly promoting integrity culture and training on financial professional ethics, so as to practically strengthen the promotion of integrity culture and incorporate integrity and self-discipline of employees into our rules and regulations.

Since the date of incorporation of the Group, the Group has regarded "compliance operation" as its credo. We believe that compliance and regulated operation are the solid bases for the robust development of the Company. The Group strictly complies with the laws and regulations of anti-commercial bribery. All staff is prohibited to accept and give presents from and to customers or attend any consumption and entertainment activities provided by the customers; the Group will sign the "Declaration of anti-commercial bribery" with every customer before granting loans; the Group insists on anti-money laundering, anti-counterfeit money, anti-illegal fund-raising, anti-corruption and anti-commercial bribery, sticking to the principle of compliance operation.

5. PROSPECT

The year 2023 marks the grand launch of full implementation of the spirit of the 20th National Congress suggested by the Communist Party of China, and also a critical year for succeeding the 14th Five-Year Plan in opening the future. Looking into 2023, the Group will adhere to continue serving the real economy, serving the "AFR (三農)", supporting the business development of small-to-medium and micro enterprises. Based on compliance, the Group will comprehensively control and analyze financial risks. Meanwhile, The Group will continue to adhere to green development. On the one hand, it will continuously promote green operations and green offices to gradually develop a green and low-carbon working and living styles; on the other hand, the Group will actively respond to the national "30·60" dual carbon target, accelerate the development of innovative green products and service, and continue to expand the proportion of green loans gradually, with an aim to forming a replicable and extendable green microfinance standard, and through a series of technical support, build an industry-leading demonstration micro-finance company in terms of green finance as a way to make contributions to the sustainable development and the goal of common prosperity in Zhejiang Province, the goal of building the demonstration area of green finance reform in Huzhou and the high-quality development of the regional economy.

5. PROSPECT (Continued)

5.1. Enhancing the brand value

In 2023, the Group will continue to improve the quality of customer services, and continue to make its contribution in local economic constructions by continuous increasing supports for "AFR (三農)", real economy and loans to small-to-medium and micro enterprises.

The Group will continue to develop diversified green loan products, and assist in green transformation of customers.

The example case of the Group to introduce green capital and technologies in supporting green transformation of itself and customers have been reported in national mainstream media such as Rural Financial Times (農村金融時報) and China Business Journal. The relevant reports were also published on Huzhou Finance (湖州金融) and various micro-finance associations. "Led by Innovation, Empowered by Technology, to Achieve Green + Digital Sustainable Development (以創新引領、以科技賦能，走綠色+數字的可持續發展信貸道路)" was included in the "Collection of Typical Cases of Financial Inclusion in China (2022) (中國普惠金融典型案例集錦(2022))".

In 2023, the course of the Group in returning to society, along with providing financial support for poverty-stricken university students is in continuous development.

5.2. Promoting harmony and integrity

In 2022, the Group will further incorporate integrity into corporate governance and continue to provide customer services with self-regulation and integrity. The Group will also reinforce policies and measures of anti-corruption and commercial bribery, with an aim to enhance the risk control ability of the Group.

The Group will further strengthen and refine the relevant mechanisms for mutual assistance and promoting career development of the staff, enhancing their pride and cohesion of the Company.

Attachment 1: References to ESG Guide

Number	Details	Place of Disclosure
A1.1	The types of emissions and respective emissions data.	Page 43: Waste gas emission
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions in total (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 43: Emission of greenhouse gas
A1.3	Total hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable
A1.4	Total non-hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable
A1.5	Description of emission target(s) set and steps taken to achieve them.	Page 43: 3.2 Emission
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Not applicable
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Page 44: Use of Resources
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Page 44: Use of Resources
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Page 44: Use of Resources
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Page 44: Use of Resources
A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced.	Not applicable
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Page 42, Green operation; Page 43, Emission; Page 44, Use of Resources.
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Not applicable
B1.1	Total workforce by gender, employment type (for example, full- or part- time), age group and geographical region.	Page 45, Statistics of staff
B1.2	Employee turnover rate by gender, age group and geographical region.	Page 46, Statistics of staff
B2.1	Number and rate of work-related fatalities occurred in the past three years, including the reporting year.	Not applicable
B2.2	Lost days due to work injury.	Not applicable
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Page 48: 4.1.6. Occupational health and safety

Number	Details	Place of Disclosure
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Page 47, Staff training
B3.2	The average training hours completed per employee by gender and employee category.	Page 47, Staff training
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Not applicable
B4.2	Description of steps taken to eliminate such practices when discovered.	Not applicable
B5.1	Number of suppliers by geographical region.	Page 48, 4.2 Suppliers
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Page 48, 4.2 Suppliers
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Not applicable
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Not applicable
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable
B6.2	Number of products and service related complaints received and how they are dealt with.	Page 49, 4.3 Customers
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not applicable
B6.4	Description of quality assurance process and recall procedures.	Not applicable
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Page 49: 4.3.1 Customer information security
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Not applicable
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Page 51: 4.4.3. Adhering to anti- corruption and clean governance
B7.3	Description of anti-corruption training provided to directors and staff.	Not applicable
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Page 50: 4.4.1. Product liabilities; Page 50: 4.4.2. Rewarding the society
B8.2	Resources contributed (e.g. money or time) to the focus area.	Page 50: 4.4.1. Product liabilities; Page 50: 4.4.2. Rewarding the society

The Directors are pleased to present the report together with the audited financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the PRC. The Company's principal place of business and its registered office in the PRC is situated at No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province, the PRC and its principal place of business in Hong Kong is situated at Suite 2703, 27th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES

We provide financing solutions to customers engaged in AFR (三農), SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, to meet their short-term financing needs. 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 sectors including ecology, agriculture, forestry, animal husbandry and fishery, development and use of new energy, technological improvement of energy conservation and emission reduction, as well as transition economy.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2022 is set out in the sections headed "Chairman's Statement", "Financial Summary", "Management Discussion and Analysis" of this report and the paragraphs below.

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the SFO for the disclosure of information and corporate governance. Important events affecting the Group are provided under the paragraph headed "Events After The Reporting Period" in the section headed "Report of the Directors" of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

The following lists out the principal risks and uncertainties facing the Group.

Impact of Local and International Regulations

The business operation of the Group is subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in some parts of its business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees and Customers

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regularly analyzes its customers' feedbacks. The Group also conducts comprehensive tests and checks to ensure that only quality services are offered to the customers.

Our major customers primarily consist of AFR (三農), SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products. The years of business relationship with the Group ranged from one to three years and the credit terms granted to the major customers ranged from 6 months to 12 months. Details of the interest receivables of the Group as at 31 December 2022 are set out in note 11 to the financial statements.

We are strictly in compliance with the loan approval system, and conduct daily tracking management after the loans are obtained.

During the reporting period, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. We did not have any material dispute with our customers.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2022, interests income from our five largest customers accounted for less than 30% of our net interests income for the year.

At no time during the year have the Directors, their close associates or any Shareholder (who or which to the knowledge of the Directors owns more than 5% of the Company's issued shares) had any interest in the Group's five largest customers.

Due to the Group's business nature, the Group does not have major suppliers.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years are set out on page 7 of this report. This summary does not form part of the audited combined financial statements.

FINANCIAL STATEMENTS

The result of the Group for the year ended 31 December 2022 and the state of the Group's and the Group's affairs as at that date are set out in the financial statements on pages 90 to 152 of this annual report.

A discussion and analysis of the Group's performance during the year and material factors underlying its results and financial position are set out in the Management Discussion and Analysis section of this annual report.

FIXED ASSETS

Details of movements in fixed assets of the Group during the year ended 31 December 2022 are set out in note 16 to the combined financial statements.

RESERVES

Details of movements in reserves of the Group during the year ended 31 December 2022 are set out in the section headed "Consolidated Statement of Changes in Equity" of this report, of which details of reserves available for distribution to the Shareholders are set out in note 22 to the combined financial statements.

DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.04 per share for the year ended 31 December 2022.

TAX REDUCTION AND EXEMPTION (FOR H SHAREHOLDERS)

Non-resident corporate shareholders

Pursuant to the requirements of the Enterprise Income Tax Law of the People's Republic of China and its implementation rules effective from 1 January 2008, the Company shall withhold and pay the enterprise income tax at the tax rate of 10% for the distribution of dividend to non-resident corporate shareholders whose names appear on the H Share register.

Non-resident individual shareholders

Pursuant to the requirements of the Notice on Certain Issues on the Policies of Individual Income Tax by the State Administration of Taxation and the Ministry of Finance (Cai Shui Zi [1994] No. 20) (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字[1994] 20號)), foreign individuals are temporarily exempted from individual income tax on the dividends and bonuses received from foreign invested enterprises. The Company was approved by the Department of Commerce of Zhejiang Province to convert into a foreign invested joint stock company, and thus the Company is not required to withhold nor pay the individual income tax on the distribution of dividend to non-resident individual shareholders whose names appear on the H Share register.

At that time, the Group will conduct the withholding and payment specifically according to the prevailing laws and regulations and the relevant provisions of the state on taxation when distributing dividends.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholder's entitlement to attend and vote at the AGM, the 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 Shares 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 (in respect of H shares), or to or to the Company's registered office in the PRC at No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province, the PRC (in respect of Domestic Shares) no later than 4:30 p.m. on Monday, 29 May 2023.

CHARITABLE DONATIONS

The Group donated RMB8,000 to help the disadvantaged in the year ended 31 December 2022.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Group as at 31 December 2022 are set out in note 18 to the combined financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2022 are set out in the section headed "Combined Statement of Changes in Equity" of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules for the year ended 31 December 2022 and up to the date of this report.

PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to propose new issues to its existing Shareholders in proportion to their shareholdings.

PURCHASE, SALE OR REDEMPTION 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.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this report, no equity-linked agreements were entered into during the year ended 31 December 2022 or subsisted at the end of the year.

DIRECTORS AND SUPERVISORS

The following table sets forth information concerning the Directors and Supervisors for the year ended 31 December 2022.

Name	Age	Position	Appointment Date
Directors			
Mr. Yu Yin	36	Executive Director and chairman of the Board	28 April 2014
Mr. Zheng Xuegen	58	Executive Director, vice-chairman of the Board	28 April 2014
Mr. Yang Sheng	48	Executive Director, vice-chairman of the Board and General Manager	7 April 2016
Ms. Hu Fangfang	41	Executive Director, Chief Financial Controller	28 June 2019
Mr. Pan Zhongmin (formerly known as Pan Zhongming)	49	Non-executive Director	8 August 2014
Mr. Chan Kin Man	43	Independent non-executive Director	29 June 2020
Mr. Zhao Xuqiang	45	Independent non-executive Director	29 June 2020
Ms. Yang Jie	44	Independent non-executive Director	29 June 2020
Supervisors			
Mr. Wang Peijun	49	Supervisor	8 August 2014
Ms. Zhou Mingwan	35	Supervisor	29 June 2020
Mr. Chen Qi	41	Supervisor	11 March 2022

In accordance with Article 10.2 of Article of Association, Directors shall be elected at the shareholders' general meeting to hold office for a term of three years. All the Directors has been elected or re-elected for a term of three years at the annual general meeting of the Company which was held on 29 June 2020. Upon the expiry of the term of office, all current Directors shall be eligible to be re-elected and reappointed, and shall be re-elected for a term of three years at the annual general meeting of the Company which will be held on 29 June 2023.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and considers that all of the independent non-executive Directors are independent of the Company.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and Senior Management of the Company are set out on pages 26 to 31 of this report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors has entered into a service contract with the Company from the commencement of the third session of the Board and each service contract is effective until the end of the third session of the Board.

Each Supervisor has entered into a service contract with the Company from the commencement of the third session of the Board of Supervisors and each service contract is effective until the end of the third session of the Board of Supervisors.

Save as disclosed above, the Company has not entered, and does not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within 1 year without the payment of compensation (other than statutory compensation)).

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such indemnity provisions for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2022.

REMUNERATION OF DIRECTORS AND SUPERVISORS

No emoluments are paid or payable to these directors and supervisors 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.

No director waived or agreed to waive any remuneration for the year ended 31 December 2022 and 2021.

Details of the remuneration of the Directors and Supervisors are set out in note 7 to the combined financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year ended 31 December 2022.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2022, the interests or short positions of the Directors, Supervisors and the chief executive in the shares, underlying shares and debentures of the Company or any associated corporations of the Company (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interests of the Directors in the Shares

Name of Director	Class of shares	Number of shares[4]	Nature of interest	Approximate percentage in the relevant class of shares[1]	Approximate percentage in the total issued shares[1]
Yu Yin	Domestic Shares	98,000,000 (L)	Beneficial owner[2]	11.14%	8.31%
	Domestic Shares	321,928,000 (L)	Interests held jointly with another person[2]	36.58%	27.28%
Zheng Xuegen	Domestic Shares	2,992,000 (L)	Beneficial owner	0.34%	0.25%
Pan Zhongmin	Domestic Shares	11,792,000 (L)	Interest of a controlled Corporation[3]	1.34%	1.00%

Notes:

(1) The calculation is based on the total number of 1,180,000,000 ordinary shares of the Company in issue as at 31 December 2022, which is comprised of 880,000,000 Domestic Shares and 300,000,000 H Shares.

(2) On 28 April 2014, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy entered into the Acting in Concert Agreement, pursuant to which they jointly and severally undertook that they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders of the Company (and of its subsidiaries, if any in the future) based on such decisions. As at 31 December 2022, Mr. Yu Youqiang (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu Yin, Mr. Shen Haiying (by himself and through Dingsheng Investment and Zuoli Holdings), Mr. Zhang Jianming and Puhua Energy together control approximately 35.59% of the total issued shares in the Company. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming are deemed to be interested in approximately 35.59% of the total issued shares in the Company.

(3) Mr. Pan Zhongmin holds 75.50% of the equity interest of Bangni Fiber, which in turn holds approximately 1.00% of the total issued shares in the Company. By virtue of the SFO, Mr. Pan Zhongmin is deemed to be interested in approximately 1.00% of the total issued shares in the Company.

(4) The letter "L" denotes the person's long position in such securities.

Save as disclosed above, as at 31 December 2022, none of the Directors, Supervisors and the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, the persons (other than Directors or chief executives of the Company) or corporations who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Shareholder	Class of shares	Number of shares[6]	Nature of interest	Percentage in the relevant class of share capital[1]	Percentage in the total issued share capital[1]
Mr. Yu Youqiang	Domestic Shares	419,928,000 (L)	Interest of a controlled corporation[2][3]	47.72%	35.59%
Puhua Energy	Domestic Shares	298,996,960 (L)	Beneficial owner[2]	33.98%	25.34%
	Domestic Shares	120,931,040 (L)	Interests held jointly with another person[2]	13.74%	10.25%
Zuoli Holdings	Domestic Shares	419,928,000 (L)	Interest of a controlled corporation[2][4]	47.72%	35.59%
Deqing Yintian	Domestic Shares	419,928,000 (L)	Interest of a controlled corporation[2][5]	47.72%	35.59%
Mr. Shen Haiying	Domestic Shares	3,630,000 (L)	Beneficial owner[2]	0.41%	0.31%
	Domestic Shares	416,298,000 (L)	Interests held jointly with another person[2]	47.31%	35.28%
Dingsheng Investment	Domestic Shares	419,928,000 (L)	Interests held jointly with another person[2]	47.72%	35.59%
Mr. Zhang Jianming	Domestic Shares	19,301,040 (L)	Beneficial owner[2]	2.19%	1.64%
	Domestic Shares	400,629,960 (L)	Interests held jointly with another person[2]	45.53%	33.95%

Shareholder	Class of shares	Number of shares[(6)]	Nature of interest	Percentage in the relevant class of share capital[(1)]	Percentage in the total issued share capital[(1)]
Mr. Peng Tao	H Shares	68,200,000 (L)	Beneficial owner	22.73%	5.78%
Gawsun (HK) International Trading Co., Limited	H Shares	65,860,000 (L)	Beneficial owner	21.95%	5.58%
Tamai Investments Corp.	H Shares	21,662,000 (L)	Trustee	7.22%	1.84%

Notes:

(1) The calculation is based on the total number of 1,180,000,000 ordinary shares of the Company in issue as at 31 December 2022, which is comprised of 880,000,000 Domestic Shares and 300,000,000 H Shares.

(2) On 28 April 2014, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy entered into an Acting in Concert Agreement, pursuant to which they jointly and severally undertook that they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders (and of its subsidiaries, if any in the future) based on such decisions. As at 31 December 2022, Mr. Yu Youqiang (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu Yin, Mr. Shen Haiying (by himself and through Dingsheng Investment and Zuoli Holdings), Mr. Zhang Jianming and Puhua Energy together control approximately 35.59% of the issued share capital in the Company. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming are deemed to be interested in approximately 35.59% of the issued share capital in the Company.

(3) As Puhua Energy is indirectly controlled by Mr. Yu Youqiang, Mr. Yu Youqiang is deemed to be interested in the Shares held by Puhua Energy.

(4) Zuoli Holdings directly and indirectly holds in aggregate 100% equity interest of Puhua Energy. By virtue of the SFO, Zuoli Holdings is deemed to be interested in the Shares held by Puhua Energy.

(5) Deqing Yintian is wholly owned by Mr. Yu Youqiang and holds approximately 79.56% of the equity interest in Zuoli Holdings. Zuoli Holdings is controlled by Deqing Yintian and therefore Deqing Yintian is deemed to be interested in the Shares held by Zuoli Holdings.

(6) The letter "L" denotes the person's long position in such securities.

Save as disclosed above, as at 31 December 2022, the Directors were not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance in relation to the business of the Group to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or supervisor of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2022.

CONTRACTS OF SIGNIFICANCE

During the year ended 31 December 2022, there had been no contract of significance between the Company or any of its subsidiaries and a Controlling Shareholder, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any of its subsidiaries.

INTEREST OF DIRECTORS AND SUPERVISORS IN A COMPETING BUSINESS

None of the Directors, the Supervisors or the management Shareholders and their respective close associates has an interest in a business which competes or may compete with the business of the Company.

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Zuoli Holdings, Puhua Energy, Mr. Yu Yin, Mr. Yu Youqiang, Deqing Yintian, Mr. Shen Haiying, Dingsheng Investment and Mr. Zhang Jianming, being the Controlling Shareholders, has confirmed to the Company that he/it has complied with the non-compete undertakings given by them to the Company from the Listing Date to the date of this report. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertakings and confirmed that all the undertakings thereunder have been complied by each of the Controlling Shareholders.

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 31 December 2022 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Supervisors or their respective spouses or minor children, or were such rights exercised by them, or was the Company or its holding company a party to any arrangements to enable the Directors or Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

RETIREMENT SCHEME

The Company participates in pension scheme organized by the municipal government of Huzhou City and Hangzhou City, Zhejiang for the Group's employees based in the PRC. The Group has no other material obligation for payment of retirement benefits to employees beyond the contributions to retirement scheme described above. The details of the Group's pension scheme are set out in note 1(n) to the combined financial statements.

The Group adopts a central pension scheme (the "**Defined Contribution Schemes**") operated by the local municipal government, which these subsidiaries are required to contribute a certain percentage, which was pre-determined by the local municipal government, of the sum of basic salary and allowance of employees to the Defined Contribution Schemes. The contributions by the Group for the Defined Contribution Schemes are charged to the statement of profit or loss as they become payable in accordance with the relevant rules of the respective schemes.

The Group's contributions to the Defined Contribution Schemes vest fully and immediately with the employees. Accordingly, (i) for each of the two years ended 31 December 2021 and 31 December 2022, there was no forfeiture of contributions under the Defined Contribution Schemes; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the Defined Contribution Schemes as at 31 December 2021 and 31 December 2022.

For each of the two years ended 31 December 2021 and 31 December 2022, the Group did not have any other defined benefit plan.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company complied with all code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules during the year ended 31 December 2022.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

On 8 April 2019, Mr. Yu Yin, a Controlling Shareholder, notified the Company that he has charged 88,000,000 domestic shares, representing approximately 7.46% of the total issued share capital of the Company, in favour of Shanghai Pudong Development Bank Co., Ltd. (Huzhou Deqing Sub-branch) as security for a facility provided to Jinhui Micro-finance.

On 11 May 2021, Puhua Energy, a substantial shareholder of the Company, notified the Company that it has charged 293,130,000 domestic shares, representing 24.84% of the total issued share capital of the Company, in favour of Zheli Financial Service as security for a facility provided to Puhua Energy.

For details of the above, please refer to the announcements of the Company dated 8 April 2019 and 11 May 2021, respectively.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2022, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

EVENTS AFTER THE REPORTING PERIOD

On 9 February 2023, the Company acquired 6% of the equity interest of Xingyao Micro-finance, a subsidiary of the Company, and the shareholding of the Company 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 report.

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 Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the said provision of guarantees was fully 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 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. 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.

AUDIT COMMITTEE

The audit committee of the Company 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 consolidated financial 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.

AUDITOR

The combined financial statements for the year ended 31 December 2022 have been audited by KPMG, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as the auditor of the Company is to be proposed at the AGM.

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

REPORT OF THE BOARD OF SUPERVISORS

The current session of the Board of Supervisors was established upon the approval of the general meeting of the Company. The current session of the Board of Supervisors is comprised of three Supervisors, namely Ms. Zhou Mingwan, Mr. Wang Peijun and Mr. Chen Qi.

During the year ended 31 December 2022, for the Company's long term interests and the Shareholders' interests, the Board of Supervisors acted in strict compliance with relevant laws, regulations, rules, regulatory documents, the Articles of Association and the Listing Rules and earnestly performed their duties of supervision as to the acts of the Directors of the Company. The main area of work of the Board of Supervisors in 2022 is summarised as follows:

I. MEETING CONDUCTED BY THE BOARD OF SUPERVISORS

The Board of Supervisors convened five meetings for the year ended 31 December 2022.

II. WORK OF THE BOARD OF SUPERVISORS

The work of the Board of Supervisors mainly comprised of the followings:

1. Inspection over implementation of resolutions of the general meetings

The Board of Supervisors exercised supervision and inspection of the implementation of the resolutions in general meetings by the Board through observation and attendance at the Board meetings and general meetings. The Board of Supervisors is of the opinion that the Directors have diligently performed their duties in compliance with resolutions of the general meetings. No violation of any laws or regulations or the Articles of Association or any act which jeopardises the interests of the Company or the Shareholders has been found in the performance of duties by the Directors.

2. Inspection over legal compliance of the Company's operations

The Board of Supervisors exercised supervision on a regular basis over the legal compliance and rationality of the Group's operation and management in its ordinary works. It has also exercised supervision over work performance of the Board. The Board of Supervisors is of the opinion that, the Group's operation is sound and rational, and is in compliance with all applicable laws, regulations and rules and the Articles of Association. The members of the Board have conscientiously and diligently performed their duties, and none of their acts would prejudice the interests of the Company or the Shareholders.

3. Inspection over the Company's daily operating activities

The Board of Supervisors exercised supervision over the Group's operating activities. The Board of Supervisors is of the opinion that the Group has sound risk management and internal control systems and has made great progress in the formulation and implementation of its internal work procedures, thus effectively controlled its exposure to various operating risks. The Group's operation is in compliance with the PRC laws and regulations and the Articles of Association.

4. Inspection over the Group's financial condition

The Board of Supervisors has verified the Group's 2022 combined financial statements, supervised and inspected the Group's implementation of relevant financial policies and legislations as well as details on the Group's assets, financial income and expenditure. It is of the opinion that the combined financial statements for 2022 fairly reflected its financial position and operating results.

Looking forward, the Board of Supervisors will continue to carry out its duties in strict compliance with the Articles of Association and the relevant laws and regulations and protect the interests of the Shareholders.

佐力科創小額貸款股份有限公司
(Zuoli Kechuang Micro-finance Company Limited*)
Zhou Mingwan
Chairman of the Board of Supervisors

Hong Kong, 17 March 2023

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

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

The Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provisions**") of 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 Code Provisions.

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established four Board committees, being the audit committee (the "**Audit Committee**"), the remuneration and appraisal committee (the "**Remuneration and Appraisal Committee**"), the nomination committee (the "**Nomination Committee**") and the loan approval committee (the "**Loan Approval Committee**") (each a "**Board Committee**" and collectively the "**Board Committees**"), to oversee different areas of the Company's affairs.

The Board currently comprises four executive Directors, namely Mr. Yu Yin (Chairman), Mr. Zheng Xuegen, Mr. Yang Sheng and Ms. Hu Fangfang, one non-executive Director, namely, Mr. Pan Zhongmin, and three independent non-executive Directors, namely, Mr. Chan Kin Man, Mr. Zhao Xuqiang and Ms. Yang Jie.

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographies of Directors and Supervisors" on pages 26 to 31 in this report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company's website.

There is no financial, business, family or other material/relevant relationships among members of the Board.

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, investment policy, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the executive Directors. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of Directors. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Company's expense upon their request. Since January 2015, all Directors are provided with monthly updates on the Group's performance and financial position to enable the Board as a whole and each Director to discharge their duties. The Directors are also entitled to seek further information and documentation from the management and company secretary on matters to be considered and discussed by the Board.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary.

APPOINTMENT AND RE-ELECTION

In accordance with Article 10.2 of Article of Association, Directors shall be elected at the Shareholders' general meeting to hold office for a term of three years. Upon the expiry of the term of office, all current Directors shall be eligible to be re-elected and reappointed, and shall be re-elected for a term of three years at the annual general meeting of the Company which will be held on 29 June 2023.

The composition of the Board is reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' profile is set out on pages 26 to 31 of this report.

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

In March 2022, the Company organized trainings in relation to recent amendments of the Listing Rules. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during the Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

A summary of training received by the current Directors for the year ended 31 December 2022 is as follows:

	Types of training	
Name of Directors	**Attending in-house training organized by professional organizations**	**Reading materials updating on new rules and regulations**
Executive Directors		
Yu Yin	✓	✓
Zheng Xuegen	✓	✓
Yang Sheng	✓	✓
Hu Fangfang	✓	✓
Non-executive Director		
Pan Zhongmin	✓	✓
Independent non-executive Directors		
Chan Kin Man	✓	✓
Zhao Xuqiang	✓	✓
Yang Jie	✓	✓

CHAIRMAN AND GENERAL MANAGER

The position of the chairman of the Board of the Company is held by Mr. Yu Yin, and Mr. Yang Sheng holds the position of general manager. Mr. Yu and Mr. Yang, each performs their duties, endeavours to maintain high standards of corporate governance.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the Shareholders and the Group. They serve actively on the Board and Board Committees to provide their independent and objective views. All the independent non-executive Directors are subject to a specific term of 3 years.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director has submitted annual confirmation of his/her independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

BOARD COMMITTEES

The Board is supported by a number of Board Committees, including the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Loan Approval Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. The terms of reference of the Audit Committee, Remuneration and Appraisal Committee and Nomination Committee are respectively available on the Company's website.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

(i) Audit Committee

The Audit Committee consists of three Directors, namely Mr. Chan Kin Man (independent non-executive Director), Mr. Zhao Xuqiang (independent non-executive Director) and Ms. Yang Jie (independent non-executive Director). Mr. Chan Kin Man, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, risk management and internal control systems and relationship with external auditors of the Company, oversee the audit process and perform other duties and such responsibilities as assigned by the Board. These include reviewing the Company's interim and annual reports.

The Audit Committee has reviewed the combined financial statements of the Group for the year ended 31 December 2022, including the accounting principles and practices adopted by the Group, report prepared by the external auditors covering major findings in the course of the audit, and selection and appointment of the external auditors.

(ii) Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee comprises three Directors, namely Mr. Yu Yin (executive Director), Mr. Chan Kin Man (independent non-executive Director) and Mr. Zhao Xuqiang (independent non-executive Director). Mr. Zhao Xuqiang is the chairman of the Remuneration and Appraisal Committee. The principal responsibilities of the Remuneration and Appraisal Committee are to review and make recommendations to the Board on the overall remuneration structure and policy for all Directors and senior management of the Company as well as the specific remuneration packages for the executive Directors and senior management of the Company and on the establishment of a formal and transparent process for developing such remuneration policy. No Director takes part in any discussion on his/her own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, performance, responsibility, job complexity and the Group's performance are taken into account.

The Remuneration and Appraisal Committee has reviewed the remuneration policy and structure relating to the Directors and senior management of the Company.

For the year ended 31 December 2022, the annual salary of the senior management (excluding Directors) of the Company falls within the following bands.

Remuneration bands	Number of senior management
Nil to RMB250,000	0
RMB250,001 to RMB500,000	1

(iii) Nomination Committee

The Nomination Committee comprises three Directors, namely Mr. Yu Yin (executive Director), Ms. Yang Jie (independent non-executive Director) and Mr. Zhao Xuqiang (independent non-executive Director). Ms. Yang Jie is the chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee are to review the composition of the Board, including its structure, size and diversity, at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors, assess the independence of independent non-executive Directors, and to ensure that independent views and input are available to the Board. The Nomination Committee will also give consideration to the Board Diversity Policy and the Nomination Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy and the Nomination Policy (as defined below), so as to develop and review measurable objectives for the implementing the Board Diversity Policy and the Nomination Policy (as defined below) and to monitor the progress on achieving these objectives.

The Nomination Committee has reviewed the structure, size and composition of the Board and assessed independence of the independent non-executive Directors.

(iv) Loan Approval Committee

The Loan Approval Committee comprises three Directors, namely Mr. Yang Sheng (executive Director), Mr. Zheng Xuegen (executive Director), and Ms. Hu Fangfang (executive Director). Mr. Yang Sheng is the chairman of the Loan Approval Committee.

The primary functions of the Loan Approval Committee are to determine the risk profile and creditworthiness of potential customers and whether to advance the loan if the amount of loan exceeds RMB1 million.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the Code Provision A.2.1 of the CG Code.

The Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS

The attendance record of each of the current Directors at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2022 is set out in the table below. The Directors did not authorize any alternate Director to attend the Board or Board Committee meetings.

	Attendance/Number of Meetings					
Name of Directors	Board	Nomination Committee	Remuneration and Appraisal Committee	Audit Committee	Loan Approval Committee	General Meeting
Yu Yin	11/11	1/1	1/1	N/A	N/A	1/1
Zheng Xuegen	11/11	N/A	N/A	N/A	1/1	1/1
Yang Sheng	11/11	N/A	N/A	N/A	1/1	1/1
Hu Fangfang	11/11	N/A	N/A	N/A	1/1	1/1
Pan Zhongmin	11/11	N/A	N/A	N/A	N/A	1/1
Chan Kin Man	11/11	N/A	1/1	4/4	N/A	1/1
Zhao Xuqiang	11/11	1/1	1/1	4/4	N/A	1/1
Yang Jie	11/11	1/1	N/A	4/4	N/A	1/1

BOARD PROCEEDINGS

Pursuant to the Articles of Association, the Board is required to hold at least four Board meetings each year, to be convened and hosted by the chairman of the Board. A notice of at least fourteen days shall be dispatched for a regular Board meeting. The notice shall state the time and venue by which the Board meeting will be convened. The agenda of a regular Board meeting and related documents of the meeting shall altogether be dispatched to all Directors in time and be dispatched at least three days prior to the proposed date of the Board meeting or meeting of the Board Committee proposed to be held (or within other agreed time).

The quorum for a Board meeting is the presence of more than half of the total number of Directors. A Director may attend the Board meeting in person, or appoint another Director in writing as his proxy to attend the Board meeting. The secretary to the Board of the Company is responsible for preparing and keeping the minutes of Board meetings and ensuring that such minutes are available for inspection by any Director.

During the year ended 31 December 2022, there were eight Board meetings held and the attendance of the Directors is set out in the above section headed "Attendance Record of Directors".

GENERAL MEETINGS

During the year ended 31 December 2022, the Company convened a general meeting of the Company held on 29 June 2022. All Directors attended the meeting that they were required to attend.

NOMINATION POLICY

The Board has adopted the nomination policy (the "**Nomination Policy**") on 21 August 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

(3) reviewing the profiles of the shortlisted candidates and interview them; and

(4) making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

BOARD OF SUPERVISORS

The Board of Supervisors consists of three members. The employee representative supervisor, namely Mr. Chen Qi, was elected by employees, and the other two supervisors, namely Mr. Wang Peijun and Mr. Zhou Mingwan, were elected by the Shareholders. Each of the Supervisors has entered into a service contract with the Company with a term ending on the third session of the Board of Supervisors. The functions and duties of the Board of Supervisors include, but are not limited to, reviewing and verifying financial reports; and, if in doubt, appointing certified public accountants and practicing auditors to re-examine the Company's financial information; monitoring the business activities of the Company; supervising the performance of the Directors and the chairman of the Board, and monitoring whether they had acted in violation of the laws, regulations and Articles of Association in the performance of their duties; requesting the Directors and the chairman of the Board to rectify actions which are damaging to the Company's interests; and exercising other rights given to them under the Articles of Association.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, there is no change in the information of the Directors required to be disclosed since the Company's last published interim report.

COMPANY SECRETARY

The Company has engaged in a service contract with an external service provider, Ms. Ho Wing Yan ("**Ms. Ho**"), who was the company secretary of the Company. Mr. Yu Yin, the chairman of the Board and executive Director, was the primary corporate contact person of the Company with Ms. Ho.

Being the company secretary of the Company, Ms. Ho played an important role in supporting the Board by ensuring good information flow within the Board and that Board policies and procedures are followed. Ms. Ho was responsible for advising the Board on corporate governance matters and should also facilitate induction and professional development of Directors.

During the year ended 31 December 2022, Ms. Ho complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for carrying out securities transactions of the Company by the Directors. After specific enquiry with all members of the Board, they 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 securities of the Company when he would be prohibited from dealing by the Model Code as if he were a Director.

RISK MANAGEMENT AND INTERNAL CONTROL

During the year ended 31 December 2022, the Board complied with the Code Provisions on risk management and internal control as set out in the CG Code. The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition, for maintaining proper accounting records, and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

The Board oversees the Group's risk management and internal control systems on an ongoing basis. For the year ended 31 December 2022, the Board has reviewed the effectiveness of such systems, and the systems are considered to be effective and adequate. The Board has been conducting such review on an annual basis and the Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest.

In recent years, the global awareness of environmental and social issues continued to rise, and environmental risks and health, safety and other social risks have significantly affected the global economy, posing notable impact on the financial sector's business operation and long-term sustainable development. The Company has gradually incorporated ESG risks into its comprehensive risk management system. Based on its comprehensive risk management system, the Company continuously strengthen the prevention, intra-event and post-event control and management on ESG risks at the company and business levels, so as to further improve the effectiveness of the Company's non-financial risk control and facilitate the long-term sustainable development of the Company. The Company considers ESG factors in risk management process of all business lines and includes the work performed by clients on ESG as one of the elements of risk review. We organise trainings on ESG for all relevant business personnel and risk management personnel to enhance their awareness of ESG risks and ability to manage and control such risks.

The Company has established whistleblowing and anti-corruption policy and system to regulate, conduct and ensure continuous compliance with anti-corruption policies and regulations. Employees are required to act with integrity and to report any suspected bribery, corruptions and money laundering cases to management or the Audit Committee. The Company also incorporates promotion of its whistleblowing and anti-corruption policies into its staff training.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Directors acknowledge their responsibility to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Company has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Group or cast doubts on its ability to continue as going concern.

The responsibility of KPMG, the Company's external auditor, with respect to financial reporting is set out in the section headed "Independent Auditor's Report" in this annual report.

EXTERNAL AUDITOR

KPMG has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

In 2022, fee payable to KPMG for the annual audit services was RMB2.10 million (2021: RMB1.95 million); and RMB50,000 (2021: RMB50,000 for the non-audit services of limited assurance on the ESG Report) for the non-audit services of limited assurance on the ESG Report of the Group for the year ended 31 December 2022.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

BOARD DIVERSITY POLICY

The Board adopted a new board diversity policy (the "**Board Diversity Policy**") in 1 January 2022 in accordance with the requirement set out in the CG Code. The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

In respect of the gender diversity of the Board, as at the date of the Annual Report, two of the eight Directors of the Company are female, representing 25% of the Board. The Company considers that it has achieved a diverse Board during the reporting period and will continue implementing the board gender diversity policy in the future to enhance the overall performance of the Board and the effectiveness of decision-making. It is expected that the ratio of female Directors will remain at 25% in the following years. The Company will continue its nomination policy to select suitable candidates with no gender limitation on the newly appointed Directors in the next few years.

Moreover, the proportion of females in the company workforce (including senior management) increased from 53.4% last year to 58.5% currently. Hence, the Company has already achieved gender diversity and will continue focusing on the area because workforce gender diversity is associated with resources that can provide a sustained competitive advantage to the company, which include market insight, creativity and innovation, and improved problem-solving. Men's and women's different experiences may provide insights into the different needs of male and female customers. Therefore, a mix of skills and abilities in a gender diverse team may enhance the team's overall creativity and innovation as proved by research. Moreover, a gender diverse team produces high quality decisions. Although there may be some mitigating circumstances where gender diversity can be very hard to achieve (for instance, male workers are more commonly seen regarding physical labor and female workers are more often seen during psychological consultation), the Company will keep focusing on the workforce gender diversity to maintain its current strength as well as to further improve its competences in the future.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of maintaining effective communication with the shareholders of the Company. The Company establishes various communication tools to ensure the shareholders of the Company are kept well informed of timely information of the Company. These include the annual general meeting, extraordinary general meetings, the annual and interim reports, announcements, circulars and notices. Such documents are accessible on the Company's website at www.zlkcxd.com and the Stock Exchange's website at www.hkexnews.hk/.

SHAREHOLDERS' COMMUNICATION POLICY

Purpose

The Company recognises the importance of providing current and relevant information to its Shareholders. This shareholders' communication policy (the "**Shareholders' Communication Policy**") aims to set out the provisions with the objective to ensure that the Shareholders and potential investors are provided with equal and timely access to balanced and understandable information about the Company, in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and potential investors to share their views and engage actively with the Company.

General Policy

The Board shall maintain an on-going dialogue with Shareholders and will regularly review the Shareholders' Communication Policy to ensure its effectiveness.

Information is communicated to the Shareholders as well as the stakeholders through periodic disclosure through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to Stock Exchange and other corporate publications or communications on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.zlkcxd.com).

Effective and timely dissemination of information to Shareholders shall be ensured at all times. Any questions, requests and comments can be addressed to the Company by mail to Suite 2703, 27/F., Shui On Centre, No. 6–8 Harbour Road, Wan Chai, Hong Kong, or by email to the secretary to the Board at yaolf@zlkcxd.com, or through the Company's share registrar, Computershare Hong Kong Investor Services Limited.

The Company believes that communication with Shareholders by electronic means, particularly through its website, is an efficient way to distribute information in a timely and convenient manner. Shareholders are encouraged to access to the corporate communications posted on the Company's website to help reduce the quantity of printed copies and hence reduce the impact on the environment.

The Company's website will be updated with material posted to the Stock Exchange's website immediately thereafter. Such material includes but not limited to financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

Shareholders shall be provided with designated contacts, email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

The Company has reviewed that the implementation and effectiveness of the Shareholders' Communication Policy has been conducted for the year ended 31 December 2022.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all Shareholders an equal opportunity to exercise their rights in an informed manner and allow all Shareholders to engage actively with the Company. Under the Company's Articles of Association, the shareholder communication policy and other relevant internal procedures of the Company, the Shareholders enjoy, among others, the following rights:

(i) Participation at general meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the Shareholders no less than 20 days before the annual general meeting and no less than 15 days before other general meetings. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors.

(ii) Enquiries and proposals to the Board

The Company encourages Shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board Committees at the general meetings or providing written notice of such proposals for the attention of the Company Secretary at the principal place of business of the Company in Hong Kong situated at Suite 2703, 27th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

(iii) Convening extraordinary general meetings

Pursuant to the Articles of Association, the Board shall convene an extraordinary general meeting within two months where the Shareholders with 10% or more voting right individually or jointly request to convene an extraordinary general meeting in writing. Two or more than two Shareholders in aggregate holding no less than 10% of shares carrying voting right may request the Board to convene an extraordinary general meeting or class Shareholders' meeting through a written request or several copies of such request in the same form and to illustrate the subject of the meeting. The Board shall convene an extraordinary general meeting or class Shareholders' meeting as soon as practicably upon receipt of the foresaid written request. The aforesaid number of Share holdings shall be calculated as of the date of the submission of the written request by the Shareholder(s). A Shareholder's general meeting shall be convened in accordance with the Articles of Association.

All reasonable expenses incurred by convening and holding the aforesaid meeting by Shareholders due to the failure of the Board to hold such meeting in response to the aforesaid request(s) shall be borne by the Company. Such expenses shall be deducted from the amounts due by the Company to the Director(s) who have defaulted their duties.

(iv) Procedures for putting forward proposals at a general meeting

In overseeing and monitoring the business operation of the Company, the Shareholders have the right to put forward proposals and raise inquiries. Shareholders holding 3% or more of the Company's voting shares have the right to put up ad hoc proposals in writing to the Company, and the Company shall include such ad hoc proposals into the agenda for such general meeting if they are matters falling within the functions and powers of general meeting.

DIVIDEND POLICY

The Board has adopted the dividend policy (the "**Dividend Policy**") on 21 August 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

CONSTITUTIONAL DOCUMENTS

Pursuant to resolutions of the Shareholders passed on 19 May 2014, 8 August 2014, 18 October 2014, 4 November 2014, 21 November 2014 and 18 December 2014, the Articles of Association were adopted with effect from the Listing Date and were amended pursuant to the resolutions of the Shareholders passed on 30 June 2015, 7 April 2016, 28 April 2017, 28 June 2018 and 29 June 2020. There was no change made to the Articles of Association during the year ended 31 December 2022.

The Articles of Association are available on the websites of the Stock Exchange and the Company.

On 6 April 2023, the Board announced its proposal to amend the Articles of Association of the Company in order to conform with the core standards for shareholder protections set out in Appendix 3 of the Listing Rules which took effect on 1 January 2022, and to incorporate certain housekeeping amendments. A special resolution in relation to the proposed amendments will be proposed at the AGM. For details, please refer to the announcement of the Company dated 6 April 2023 and the circular of the AGM to be published by the Company.

To the Shareholders of Zuoli Kechuang Micro-finance Company Limited
(a joint stock Company incorporated in the People's Republic of China (the "PRC") with limited liability)

OPINION

We have audited the consolidated financial statements of Zuoli Kechuang Micro-finance Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 90 to 152, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the PRC, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Allowances for impairment of loans and advances to customers

Refer to Note 11 to the consolidated financial statements and the accounting policies on page 100 to page 102.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2022, the Group's loans and advances to customers amounted to RMB2,863.8 million, with allowances for impairment totalling RMB209.5 million. The Group uses the expected credit loss ("ECL") model to measure the loss allowance in accordance with HKFRS 9, Financial instruments ("HKFRS 9"). The determination of allowances for impairment of loans and advances to customers using the expected credit loss model is subject 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 adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions. In particular, the determination of the allowances for impairment of loans and advances to customers is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for loans and advances to customers are derived from estimates whereby management takes into consideration historical overdue data, the credit grading, the historical loss experience on loans and advances to customers and other adjustment factors.	Our audit procedures to assess the allowances for impairment of loans and advances to customers included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and advances to customers, the credit grading process and the accrual of allowances for impairment of loans and advances to customers; • assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, the identification of loss stages, probability of default, loss given default, exposure at default, adjustments for forward-looking information and other management adjustments; • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of loan and advances to customers used by management to assess the allowances for impairment with the general ledger, selecting items and comparing individual loan and advances to customers information with the underlying agreements and other related documentation to assess the accuracy amounts and related information of the loan and advances to customers. For key parameters derived from external data, we assessed the accuracy of such data by comparing them with public resources;

KEY AUDIT MATTERS (Continued)

Allowances for impairment of loans and advances to customers (Continued)

Refer to Note 11 to the consolidated financial statements and the accounting policies on page 100 to page 102.

The Key Audit Matter	How the matter was addressed in our audit
Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of allowances for impairment as at the end of the reporting period. We identified the allowances for impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results of the Group.	• for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we evaluated the reasons of management's modifications of estimates and model parameters, considered the consistency of management judgments, and assessed key internal controls over the input of underlying data into the models. We compared the forward-looking economic factors used in the models with market information to assess whether they were aligned with market and economic development; • for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis; • evaluating the validity of management's assessment on whether the credit risk of the loan and advances to customers has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting items for credit reviews and checking the loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses; • for selected items of loans and advances to customers that are credit-impaired, evaluating management's assessment of the value of collateral held by comparison with market prices. We also evaluated the timing and means of realisation of collateral, evaluated the reasonableness of forecast cash flows, the viability of the Group's recovery plans and other credit enhancements that are integral to the contract terms; and • evaluating whether the disclosures on allowances for impairment of loan and advances to customers comply with the disclosure requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (Continued)

Assessing potential impairment of goodwill

Refer to Note 14 to the consolidated financial statements and the accounting policies on page 105.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2022 the amount of the Group's goodwill, which arose from the acquisition of two subsidiaries in the previous years, was RMB22.5 million, with allowances for impairment totalling RMB3.7 million. There is a risk that the carrying value of goodwill may not be recoverable in full through the future cash flows to be generated from the related cash-generating unit (the "CGU") to which the goodwill has been allocated. The recoverable amount of the CGU was determined by the management using the value-in-use model whereby a discounted cash flow forecast at the CGU level was prepared by management. We identified the impairment of goodwill as a key audit matter because of its significance to the consolidated financial statements and because determining whether any impairment is required involves a significant degree of management judgement and estimation in forecasting future cash flows, including the annual growth rate, the perpetual growth rate, interest rates and the amount of bad debts, all of which can be affected by expectations about future market or economic conditions and could be subject to management bias.	Our audit procedures to assess the potential impairment of goodwill included the following: • evaluating the methodology used by management in the preparation of the discounted cash flow forecast with reference to the requirements of the prevailing accounting standards; • evaluating the assumptions and critical judgements made by management in the preparation of the discounted cash flow forecast by comparing key inputs, including the annual growth rate, the perpetual growth rate, interest rates and the amount of bad debts with the historical performance of the relevant acquired subsidiaries, management's forecasts and industry report; • performing a retrospective review by comparing the prior year's discounted cash flow forecast with the current year's results to assess the reliability and historical accuracy of management's forecasting; • evaluating the discount rate used in the discounted cash flow forecast by benchmarking the discount rate against the discount rates for similar companies; • obtaining management's sensitivity analyses for the key assumptions, including the annual growth rate and the discount rate adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions to the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements in respect of impairment testing of goodwill with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

— Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Tat Ming.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

17 March 2023

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)

	Note	**2022 RMB'000**	2021 RMB'000
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		**96,696**	127,698
Attributable to:			
Equity shareholders of the Company		**93,340**	116,489
Non-controlling interests		**3,356**	11,209
Profit for the year		**96,696**	127,698
Earnings per share			
Basic and diluted (RMB)	9	**0.08**	0.10

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)

	Note	**31 December 2022 RMB'000**	31 December 2021 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		**2,787,638**	2,651,212
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		**826,116**	722,586
NET ASSETS		**1,961,522**	1,928,626
CAPITAL AND RESERVES	22		
Share capital		**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		**1,961,522**	1,928,626

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							
	Share capital RMB'000 Note 22(c)	**Capital reserve** RMB'000 Note 22(d)(i)	**Surplus reserve** RMB'000 Note 22(d)(ii)	**General risk reserve** RMB'000 Note 22(d)(iii)	**Retained profits** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 31 December 2021 and 1 January 2022	1,180,000	1,427	48,794	65,375	568,552	1,864,148	64,478	1,928,626
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	**1,180,000**	**1,427**	**49,461**	**69,316**	**598,284**	**1,898,488**	**63,034**	**1,961,522**
Balance at 31 December 2020 and 1 January 2021	1,180,000	980	45,933	61,635	458,664	1,747,212	101,716	1,848,928
Changes in equity for year ended 31 December 2021:								
Profit and total comprehensive income for the year	–	–	–	–	116,489	116,489	11,209	127,698
Appropriation to surplus reserve	–	–	2,861	–	(2,861)	–	–	–
Appropriation to general risk reserve	–	–	–	3,740	(3,740)	–	–	–
Dividends to non-controlling shareholders approved in respect of the previous year (Note 22(b))	–	–	–	–	–	–	(3,200)	(3,200)
Capital withdrawal by non-controlling shareholders (Note 15)	–	–	–	–	–	–	(40,000)	(40,000)
Acquisition of interest in subsidiary from non-controlling shareholders (Note 15)	–	447	–	–	–	447	(5,247)	(4,800)
Balance at 31 December 2021	1,180,000	1,427	48,794	65,375	568,552	1,864,148	64,478	1,928,626

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)

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

The accompanying notes form part of the financial statements.

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*

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

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

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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

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

Basis of calculation of interest income (Continued)

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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Convertible notes (Continued)

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

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).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Provisions and contingent liabilities (Continued)

(i) Provisions and contingent liabilities (Continued)

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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 **RMB'000**	2021 RMB'000
Interest income arising from		
Loans and advances to customers	**250,369**	269,323
Cash at banks	**89**	306
	250,458	269,629
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)
	(52,123)	(51,751)
Net interest income	**198,335**	217,878

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).

2 NET INTEREST INCOME (Continued)

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 RMB'000	2021 RMB'000
Government grants (Note)	**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 RMB'000	2021 RMB'000
Loans and advances to customers (Note 11)	**17,835**	18,877
Interest receivables	**3,296**	241
Goodwill (Note 14)	**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 RMB'000	2021 RMB'000
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	**(6,632)**	(3,237)
Total	**35,899**	45,465

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

	2022 **RMB'000**	2021 RMB'000
Profit before taxation	**132,595**	173,163
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	**2,560**	2,174
Actual income tax expense	**35,899**	45,465

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
	382	2,223	159	496	3,260

7 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	2021				
	Director's Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Pension scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Chairman					
Yu Yin (俞寅)	6	551	25	120	702
Executive directors					
Zheng Xuegen (鄭學根)	6	354	25	150	535
Yang Sheng (楊晟)	6	540	25	120	691
Hu Fangfang (胡芳芳)	6	379	25	118	528
Non-executive director					
Pan Zhongmin (潘忠敏)	6	—	—	—	6
Independent non-executive directors					
Chan Kin Man (陳健民)	123	—	—	—	123
Zhao Xuqiang (趙旭強)	100	—	—	—	100
Yang Jie (楊婕)	100	—	—	—	100
Supervisors					
Zhou Mingwan (周明萬)	6	—	—	—	6
Wang Suliang (王蘇良)	6	280	22	130	438
Wang Peijun (王培軍)	6	—	—	—	6
	371	2,104	122	638	3,235

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 RMB'000	2021 RMB'000
Salaries and other emoluments	**363**	340
Discretionary bonuses	**120**	120
Pension scheme	**25**	22
	508	482

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

	2022 Number of individuals	2021 Number of individuals
Hong Kong dollar		
Nil — 1,000,000	**1**	1
1,000,001 – 1,500,000	**—**	—

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 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)	**1,180,000**	1,180,000
Basic earnings per share (RMB)	**0.08**	0.10

9 EARNINGS PER SHARE (Continued)

(a) Weighted average number of ordinary shares

	2022 '000	2021 '000
Issued ordinary shares at 1 January	**1,180,000**	1,180,000
Weighted average number of ordinary shares at 31 December	**1,180,000**	1,180,000

There were no dilutive potential ordinary shares during the years ended 31 December 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	**6**	2
Cash and cash equivalents in the cash flow statement	**16,595**	42,678

10 CASH AND CASH EQUIVALENTS (Continued)

(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	**–**	(124)
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	**(4,419)**	(11,824)
Cash generated from operations	**38,508**	120,662

10 CASH AND CASH EQUIVALENTS (Continued)

(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 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 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 (Note 2)	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

10 CASH AND CASH EQUIVALENTS (Continued)

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

	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	(6,256)	(12,808)	(5,599)	(12,855)	–	(37,518)
Total changes from financing cash flows	(16,256)	(68,658)	(85,599)	122,223	(3,371)	(51,661)
Exchange adjustments	–	–	–	(15,576)	–	(15,576)
Other changes:						
Interest expense (Note 2)	6,221	19,809	7,812	17,369	411	51,622
Commission payables 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	–	–	–	–	818	818
Total other changes	6,221	20,470	7,812	18,139	1,507	54,149
At 31 December 2021	130,157	201,003	–	313,813	4,995	649,968

10 CASH AND CASH EQUIVALENTS (Continued)

(d) Total cash outflow for leases:

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

	2022 RMB'000	2021 RMB'000
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 RMB'000	2021 RMB'000
Lease rentals paid	**3,588**	3,444

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2022 RMB'000	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	**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

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(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	**19,990**	17,064
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

(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	**297,000**	**10%**	287,800	11%
Corporate loans	**1,110,479**	**39%**	1,016,232	39%
Retail loans	**1,703,428**	**60%**	1,611,615	60%
Micro-loans granted online	**26,915**	**1%**	27,843	1%
Sub-total	**2,840,822**	**100%**	2,655,690	100%
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	

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	31 December 2022				
	Overdue within 3 months (inclusive) RMB'000	Overdue more than 3 months to 6 months (inclusive) RMB'000	Overdue more than 6 months to one year (inclusive) RMB'000	Overdue more than one year RMB'000	Total RMB'000
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	**11,949**	**11,320**	**44,579**	**65,738**	**133,586**

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

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.

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

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

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

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Movements of allowances for impairment losses

	2022			
	12-month ECLs RMB'000	Lifetime ECLs non credit-impaired RMB'000	Lifetime ECLs credit-impaired RMB'000	Total RMB'000
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	—	—	2,398	2,398
At 31 December 2022	62,864	17,883	128,704	209,451

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

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(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	2,638,388
Sub-total	2,638,388
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	90,277
Sub-total	91,026
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	1,505
Sub-total	134,342
Less: Allowances for impairment losses	(209,451)
Net value	2,654,305

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality (Continued)

	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	–	519

14 GOODWILL

	RMB'000
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

14 GOODWILL (Continued)

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")	**771**	1,894
	18,776	19,899

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.

(Expressed in RMB'000, unless otherwise stated)

15 INVESTMENTS IN SUBSIDIARIES

The following list contains all the subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest at 31 December 2022 and 31 December 2021		
Name of Companies	Place of incorporation and business	Paid up capital	Group's effective interest	Held by the Company	Principal activities
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance") (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.

15 INVESTMENTS IN SUBSIDIARIES (Continued)

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 RMB'000	2021 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 RMB'000	Right-of-use assets RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost:							
At and 1 January 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	19,137	2,072	426	151	191	15,527	37,504
At 31 December 2021	19,868	5,038	966	439	238	18,531	45,080

16 FIXED ASSETS (Continued)

(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	**2,072**	5,038

17 OTHER ASSETS

	31 December 2022 RMB'000	31 December 2021 RMB'000
Prepayment	**786**	822
Others	**695**	366
	1,481	1,188

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 (Note (i))		
— Amortised cost	**120,000**	130,000
— Accrued interest	**143**	157
	120,143	130,157
Borrowings from third parties (Note (ii))		
— Amortised cost	**196,000**	196,980
— Accrued interest	**4,581**	4,023
	200,581	201,003
Borrowings from Euro zone (Note (iii))		
— Amortised cost	**433,953**	313,784
— Accrued interest	**5,255**	29
	439,208	313,813
Total	**759,932**	644,973

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 RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
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
	1,946	**1,975**	4,995	5,250
Less: total future interest expenses		**(29)**		(255)
Present value of lease liabilities		**1,946**		4,995

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
	21,280	28,220

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 (Note 6(a))	**42,531**	48,702
Income tax paid during the year	**(43,971)**	(50,382)
Balance of income tax payable at the end of the year	**42,958**	44,398

(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 (Note 6(a))	4,477	(96)	(1,144)	—	3,237
At 31 December 2021 and 1 January 2022	51,933	249	—	—	52,182
Charged to profit or loss (Note 6(a))	4,678	(190)	—	2,144	6,632
At 31 December 2022	56,611	59	—	2,144	58,814

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

	Share capital RMB'000 Note 22(c)	Surplus reserve RMB'000 Note 22(d)(ii)	General risk reserve RMB'000 Note 22(d)(iii)	Retained profits RMB'000	Total RMB'000
Balance at 31 December 2021 and 1 January 2022	**1,180,000**	**48,794**	**25,801**	**162,341**	**1,416,936**
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	**1,180,000**	**49,461**	**26,848**	**108,288**	**1,364,597**
Balance at 31 December 2020 and 1 January 2021	1,180,000	45,933	23,600	138,789	1,388,322
Changes in equity for 2021:					
Total comprehensive income for the year	—	—	—	28,614	28,614
Appropriation to surplus reserve	—	2,861	—	(2,861)	—
Appropriation to general risk reserve	—	—	2,201	(2,201)	—
Balance at 31 December 2021	1,180,000	48,794	25,801	162,341	1,416,936

22 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(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.

22 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(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).

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Credit risk arising from micro-finance business (Continued)

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.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(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	151,039	415,487	2,383,888	16,029	2,966,443	2,671,758
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	(11,474)	(85,021)	(336,576)	(408,806)	(841,877)	(773,352)
	139,565	330,466	2,047,312	(392,777)	2,124,566	1,898,406

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

	31 December 2021					
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	42,678	—	—	—	42,678	42,678
Interest receivables	177	—	—	—	177	177
Loans and advances to customers	138,159	488,954	2,204,620	12,784	2,844,517	2,489,479
Financial assets measured at fair value through profit or loss	10	—	—	—	10	10
Other assets	366	—	—	—	366	366
Total	181,390	488,954	2,204,620	12,784	2,887,748	2,532,710
Liabilities						
Interest-bearing borrowings	—	(66,328)	(539,332)	(72,598)	(678,258)	(644,973)
Lease liabilities	—	(1,635)	(1,640)	(1,975)	(5,250)	(4,995)
Accruals and other payables	(14,228)	—	—	—	(14,228)	(14,228)
Total	(14,228)	(67,963)	(540,972)	(74,573)	(697,736)	(664,196)
	167,162	420,991	1,663,648	(61,789)	2,190,012	1,868,514

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(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	**1,892,427**	1,839,511
Variable interest rate		
Financial assets		
— Cash and cash equivalent	**16,587**	42,673
Net	**16,587**	42,673
Net fixed rate borrowings as a percentage of total borrowings	**100.00%**	100.00%

(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.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(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 **Euros** **RMB'000**	2021 Euros 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.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(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 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial assets at fair value through profit or loss				
Wealth management products	–	–	–	–

	At 31 December 2021			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total 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 **RMB'000**	2021 RMB'000
Key management personnel remuneration (Note (i))	**3,260**	3,235
Receiving guarantees for bank loans (Note (ii))	**120,000**	130,000
Receiving guarantees for borrowing from third parties (Note (iii))	**198,730**	238,110
Releasing guarantees for convertible notes	**—**	(80,000)
Releasing guarantees for bank loans (Note (ii))	**(130,000)**	(140,000)
Releasing guarantees for borrowing from third parties (Note (iii))	**(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 **2022** **RMB'000**	31 December 2021 RMB'000
Guarantees received for borrowing from third parties	**198,730**	199,760
Guarantees received for bank loans	**120,000**	130,000

25 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Other related party transactions

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

26 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(c) Depreciation and amortisation

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

(d) Tax

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

(e) Determining the lease term

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

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2022 RMB'000	31 December 2021 RMB'000
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		**469,633**	367,433
Total assets		**1,814,939**	1,746,308
Liabilities			
Interest-bearing borrowings		**439,208**	313,813
Accruals and other payables		**5,924**	8,200
Current taxation		**4,913**	6,503
Lease liabilities		**297**	856
Total liabilities		**450,342**	329,372
NET ASSETS		**1,364,597**	1,416,936
CAPITAL AND RESERVES	22		
Share capital		**1,180,000**	1,180,000
Reserves		**184,597**	236,936
TOTAL EQUITY		**1,364,597**	1,416,936

(Expressed in RMB'000, unless otherwise stated)

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.

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