



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
2020**

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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 Tuesday, 29 June 2021 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
“Creditor's Rights”	the creditor's rights against the borrowers under the Credit Rights Transfer Agreement
“Creditor's Rights Transfer Agreement”	the agreement entered into between Xingyao Micro-finance and Xing Yao Construction on 11 December 2020 in relation to the transfer of the creditor's rights against the borrowers for their respective outstanding loans. For details, please refer to the announcements of the Company dated 11 December 2020 and 16 December 2020
“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
“Jinhui Micro-finance Registered Capital”	the registered capital of Jinhui Micro-finance
“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
“Previous Creditor’s Rights Transfer Agreements”	the creditor’s rights transfer agreements entered into between Xingyao Micro-finance and Xing Yao Construction on: (i) 27 December 2018, pursuant to which Xingyao Micro-finance agreed to sell and transfer, and Xing Yao Construction agreed to accept, the creditor’s rights at a consideration of RMB4,326,250 (equivalent to approximately HK\$4,975,187.5); and (ii) 18 October 2019, pursuant to which Xingyao Micro-finance agreed to sell and transfer, and Xing Yao Construction agreed to accept, the creditor’s rights at a consideration of RMB10,789,320 (equivalent to approximately HK\$11,976,145.2). For details, please refer to the announcements of the Company dated 27 December 2018 and 18 October 2019

DEFINITIONS

“Previous Transactions”	the transactions under the Previous Creditor’s Rights Transfer Agreements
“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
“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
“Xing Yao Construction”	杭州興耀建設集團有限公司 (Hangzhou Xing Yao Construction Group Co., Ltd*)
“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

Mr. Wang Suliang (*Chairman*)
Ms. Zhou Mingwan
Mr. Wang Peijun

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, ACS(PE)*)

AUTHORISED REPRESENTATIVES

Mr. Yu Yin
Ms. Ho Wing Yan (*ACG, ACS(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

CORPORATE INFORMATION

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.zlkxcd.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 2016, 2017, 2018, 2019 and 2020 and of the results of the Group for each of the years ended 31 December 2016, 2017, 2018, 2019 and 2020.

RESULTS

	Year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Interest income	243,360	314,301	337,536	320,349	304,952
Profit before taxation	200,869	209,382	191,212	188,482	162,072
Income tax	(50,333)	(53,530)	(48,312)	(47,694)	(44,249)
Profit and total comprehensive income for the year	150,536	155,852	142,900	140,788	117,823
Profit attributable to the equity shareholders of the Company	146,147	148,828	136,968	131,587	110,244
ASSETS AND LIABILITIES					
Total assets	2,033,266	2,217,262	2,427,471	2,527,413	2,604,379
Total liabilities	568,691	597,393	674,454	781,108	755,451
Total equity	1,464,575	1,619,869	1,753,017	1,746,305	1,848,928

CHAIRMAN'S STATEMENT

The year 2020 was a most extraordinary one. Enterprises were severely challenged to progress in intricate external environment as the COVID-19 epidemic wreaked havoc around the world and China's economy advanced against headwinds. However, with the care and support of governments at all levels and the hard work of all employees, we faced up to such challenges and responded timely. We went all out to control the epidemic and resume operation. Responding to the government appeal, we helped micro-to-small enterprises tide over difficulties as a way to take the initiative in assuming social responsibilities.

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 2020.

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 2020, we granted loans of RMB3,699.16 million in total; interest income reached RMB304.95 million; net profit reached RMB117.82 million; and amounts attributable to equity shareholders of the Company reached RMB110.24 million. Our operating performance remained basically stable.

Meanwhile, 2020 was crucial for the Company to explore and seek new development opportunities for green transformation. In 2020, the Company was listed as the first pilot unit of green micro-finance company in Huzhou, and achieved a series of results in developing green micro-finance. First, as the main drafter, the Company participated in the formulation of the Green Micro-finance Company Construction and Evaluation Standard (《綠色小額貸款公司建設與評價規範》), a Huzhou local standard and currently the first and only green evaluation standard for micro-finance companies in China. The standard has been officially issued and implemented. Second, the green loan information management system independently developed by the Company obtained the national software copyright. Third, the Transform to Green Micro-finance with Commitment to Sustainable Development (《轉型綠色小貸·致力可持續發展》) of the Company was successfully selected as the 2020 green finance innovation case in Huzhou. Fourth, the Company was rated excellent in the assessment of establishing an experimental area of the national green finance reform and innovation in Huzhou in 2020. The green transformation within the Company further promoted the brand of the Company, and consolidated the foundation for the Company's future development.

Looking forward to 2021, a series of major decisions and deployments, such as the goal of peaking carbon dioxide emissions before 2030 and achieving carbon neutrality before 2060, and the new "dual-circulation" development pattern proposed in the "14th Five-Year Plan", has brought better opportunities for us to explore green development. We will continue our efforts to tap the potential of green business, and develop and expand the green loan market so as to actively advance the brand building of the Company's green micro-finance and better practice inclusive and green finance.

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

Yu Yin

Chairman

19 March 2021

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

We carried out our microfinance business in the PRC, and our business is mainly conducted in Deqing County, Huzhou City and Binjiang District, Hangzhou City, the PRC, where the main market share comes from Deqing County. Deqing has experienced robust economic development and growth in recent years, and is placed among the national top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). Deqing has been designated as a “technological outstanding county (科技強縣)”, a “financial innovation demonstration county (金融創新示範縣)” as well as the “financial back-office base in Yangtze River Delta (長三角金融後台基地)” by Zhejiang provincial government of the PRC. A number of new high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which has promoted the development of the local financial services industry.

Competition within the microfinance industry in Zhejiang remains intense. As of 31 December 2020, the number of microfinance companies in Zhejiang reached 315 in total. The average registered capital per microfinance company amounted to RMB0.17 billion. The average loan balance per microfinance company amounted to RMB0.19 billion.

As of 31 December 2020, apart from the Group, there were three other microfinance companies in Deqing. The accumulated aggregate amount of loans granted by the Group and the three microfinance companies for the year ended 31 December 2020 reached approximately RMB4.32 billion (2019: RMB5.64 billion), out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 85.6% (2019: 73.3%). As of 31 December 2020, the balance of loans (excluding accrued interest) of the Group and these three microfinance companies reached approximately RMB3.18 billion (2019: RMB3.57 billion), out of which the balance of loans (excluding accrued interest) of the Group accounted for approximately 80.5% (2019: 69.5%).

BUSINESS OVERVIEW

As at 31 December 2020, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Financial Work Office of the People’s Government of Zhejiang Province* (浙江省人民政府金融工作辦公室) (now known as Zhejiang Provincial Financial Regulatory Bureau* (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.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 31 December 2020	As at 31 December 2019
Registered capital (RMB'000)	1,180,000	1,180,000
Gross loans and advances to customers (excluding accrued interest, RMB'000)	2,557,669	2,482,713
Leverage ratio ⁽¹⁾	2.17	2.10

Note:

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

For the years ended 31 December 2019 and 2020, our average interest rates for loans were 12.8% and 12.0%, respectively. Our average loan interest rate decreased slightly during the aforesaid period, mainly due to the weak external economic environment caused by the COVID-19 pandemic. The government has issued supportive policies to support small and micro enterprises to tide over the difficulties. In order to actively respond to the call of the government, we appropriately reduced certain lending rates to maintain our competitiveness in the industry under the situation of the decline in average interest rates of the loans granted by other companies in the industry. Furthermore, we continued to focus on serving customers with stronger repayment ability in 2020, to which we charged relatively lower interest rates so as to effectively control the credit risk.

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

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

As at 31 December 2019 and 2020, approximately 79.8% and 73.8% of loan contracts were with maximum amount limited to RMB1 million, respectively. Among our loan contracts, the higher proportion of loans with amount up to RMB1 million was mainly due to the fact that we mainly target to serve SMEs and micro enterprises, individuals in the agricultural, industrial and service sectors in Huzhou City and Hangzhou City and online retailers engaging in the business of lifestyle products, agricultural products, cultural supplies and industrial products, etc., the loan amounts granted to whom are generally lower.

LOANS AND ADVANCES TO CUSTOMERS BY TYPE OF COLLATERAL

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

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

Note:

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

	As at 31 December 2019			
	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	2,412,683	158	107,199	2,520,040
Less: Allowances for impairment losses	(65,718)	(51)	(89,692)	(155,461)
Net loans and advances to customers	2,346,965	107	17,507	2,364,579

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

	As at 31 December 2020	As at 31 December 2019
Impaired loan ratio⁽¹⁾	4.8%	4.3%
Balance of impaired loans (RMB'000)	123,223	107,199
Gross loans and advances to customers (RMB'000)	2,587,651	2,520,040
Allowance coverage ratio⁽²⁾	152%	145%
Allowances for impairment losses ⁽³⁾ (RMB'000)	187,537	155,461
Balance of impaired loans (RMB'000)	123,223	107,199
Provision for impairment losses ratio⁽⁴⁾	7.2%	6.2%
Balance of overdue loans (RMB'000)	123,532	71,038
Gross loans and advances to customers (RMB'000)	2,587,651	2,520,040
Overdue loan ratio⁽⁵⁾	4.8%	2.8%

Notes:

- (1) Represents the balance of impaired loans divided by the gross loans and advances to customers. Impaired loan ratio indicates the quality of our loan portfolio.
- (2) Represents the allowances for impairment losses on all loans divided by the balance of impaired loans. Allowance coverage ratio indicates the level of provisions we set aside to cover probable loss in our loan portfolio.
- (3) Allowances for impairment losses reflect our management's estimate of the probable losses in our loan portfolio.
- (4) Represents the allowances for impairment losses divided by the gross loans and advances to customers. Provision for impairment losses ratio measures the cumulative level of provisions.
- (5) Represents the balance of overdue loans divided by the gross loans and advances to customers.

Total impaired loans

Our balance of impaired loans increased from RMB107.2 million as of 31 December 2019 to RMB123.2 million as of 31 December 2020, which was mainly due to the increase of loan balance and the deterioration of the operating environment of some of our loan customers as at 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Total overdue loans

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

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

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

FINANCIAL OVERVIEW

Net interest income

We generate interest income from loans and advances we provide to customers and from our cash at banks. Our net interest income is net of interest and commission expenses. We incur interest and commission expenses on bank and other borrowings, which are principally used to expand our business and meet working capital requirements, as well as bank charges.

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

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

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rates that we charge on loans to our customers. Our balance of loans increased during the reporting period, generally in line with the size of our capital base, which is in turn affected by the size of our net assets and financing. As at 31 December 2019 and 2020, our loan balance (excluding accrued interest) were RMB2,482.7 million and RMB2,557.7 million, respectively, and for the years ended 31 December 2019 and 2020, our average interest rates for loans were 12.8% and 12.0%, respectively. Our average loan interest rate decreased slightly during the aforesaid period, mainly due to the weak external economic environment caused by the COVID-19 pandemic. The government has issued supportive policies to support small and micro enterprises to tide over the difficulties. In order to actively respond to the call of the government, we appropriately reduced certain lending rates to maintain our competitiveness in the industry under the situation of the decline in average interest rates of the loans granted by other companies in the industry. Furthermore, we continued to focus on serving customers with stronger repayment ability in 2020, to which we charged relatively lower interest rates so as to effectively control the credit risk.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions, lease liabilities as well as bank charges, were RMB49.6 million and RMB49.0 million for the years ended 31 December 2019 and 2020, respectively. Our incurred interest expenses were primarily attributable to the interest payment on bank and non-bank institutions borrowings, including borrowings from third parties, convertible bonds and borrowings from Euro zone, which were principally applied to expand our loan business.

Our balance of bank borrowings (excluding accrued interest) as at 31 December 2019 and 2020 amounted to RMB150.0 million and RMB140.0 million, respectively. Our balance of borrowings from non-bank institutions (excluding accrued interest) amounted to RMB558.1 million and RMB511.4 million as at 31 December 2019 and 2020, respectively.

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

Other net income

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

Impairment losses

Impairment losses include provisions in relation to loans and advances to our customers and interests receivables, etc. We review our portfolios of loans and advances and interests receivables, etc. regularly to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Our management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any deviation between estimated loss and the actual loss.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Our administrative expenses mainly include: (i) tax and surcharge; (ii) staff costs, such as salaries, bonuses and allowances paid to employees, social insurance and other benefits; (iii) office expenditures and travel expenses; (iv) operating lease charges; (v) depreciation and amortization expenses; (vi) consulting and professional service fees; and (vii) other expenses, including business development expenses, advertising expenses and other miscellaneous expenses, such as stamp duty, conference fees and labor protection fees. The table below sets out the components of our administrative expenses by nature for the periods indicated:

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

Our staff costs accounted for approximately 38.3% and 35.0% of the total administrative expenses for the years ended 31 December 2019 and 2020, respectively. Our staff costs decreased from RMB22.9 million for the year ended 31 December 2019 to RMB18.4 million for the year ended 31 December 2020, which was mainly due to the fact that during the period from February to December 2020, we were exempted from paying premiums on pension insurance, unemployment insurance and work-related injury insurance as well as our payment on basic medical insurance was reduced by half for period from February to June 2020, in accordance with provisions of the Notice on Phased Reduction or Exemption of Corporate Social Insurance Premiums (Zhe Ren She Fa [2020] No. 13) (《關於階段性減免企業社會保險費有關問題的通知(浙人社發[2020]13號)》) and the Notice on the Extension of the Implementation Period of the Social Insurance Policies for Enterprises in Stages (Ren She Bu Fa [2020] No. 49) (《關於延長階段性減免企業社會保險費政策實施期限等問題的通知(人社部發[2020]49號)》).

Income tax

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

Profit and total comprehensive income for the year

We had profit for the year of RMB140.8 million and RMB117.8 million for the years ended 31 December 2019 and 2020, respectively.

Liquidity and capital resources

Our working capital and other capital requirements are mainly financed by equity investments from the Shareholders, interest-bearing borrowings, and cash flows from operations. Our working capital and capital requirements are primarily related to extending loans and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity level that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than the bank borrowings obtained from commercial banks, we may also consider conducting financing on the platform of 浙江股權交易中心 (Zhejiang Equity Exchange Centre*) and financing on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*), offshore financing or other investments plans or choices. Nevertheless, as at the date of this report, save as disclosed above, we did not have any firm intention or formulate any specific plan on material external debt financing in the short term.

As at 31 December 2020, our balance of interest-bearing borrowings was approximately RMB656.2 million (31 December 2019: RMB716.0 million).

WORKING CAPITAL MANAGEMENT

Cash flows

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

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

Net cash generated from operating activities

Our cash generated from operating activities primarily consisted of interest income from loans granted to customers. Our cash used in operating activities primarily consisted of our loans and advances to customers and various taxes.

We account equity investments from the Shareholders and interest-bearing borrowings as cash generated from financing activities, while we utilize such cash for granting new loans to customers and classify it as cash used in operating activities. Due to the loan granting nature of our business and the accounting treatment that deployment of cash for granting loans is accounted for as operating cash outflows, we typically experience net cash outflows from operating activities when we expand our loan portfolio, which is generally in line with the industry norm.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Net cash used in investing activities

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

Net cash used in financing activities

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

Cash management

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

Cash and cash equivalents

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

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

Loans and advances to customers

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

Note:

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

The majority of our loans were guaranteed loans, which accounted for approximately 96.8% and 97.5% of our gross loans and advances to customers (excluding accrued interest) as at 31 December 2019 and 2020, respectively.

OTHER ASSETS

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

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

Accruals and other payables

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

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

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

Current taxation

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

Capital commitments

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

Key Financial Indicators

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

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

Note:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing Ratio

	As of 31 December 2020	As of 31 December 2019
Gearing Ratio (%) ⁽¹⁾	33.1	40.4

Note:

- (1) Represents the interest-bearing borrowings less cash and cash equivalents, divided by total equity attributable to equity Shareholders as at the end of the year.

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

Related Party Transactions

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

The independent non-executive Directors have reviewed all the above continuing connected transactions and confirmed that these transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and conducted in accordance with the relevant agreements governing them on terms which are fair and reasonable and in the interests of the Shareholders as a whole.

For the year ended 31 December 2020, the Company and Jinhui Micro-finance (a non-wholly owned subsidiary of the Company) leased properties from Zuoli Holdings with a depreciation on right-of-use assets and interest expense of RMB2.4 million. The entering into of the lease agreements allow the Company and Jinhui Micro-finance to maintain their operational needs. Puhua Energy is a Controlling Shareholder ("**Controlling Shareholder**") and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transactions constituted connected transactions under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio for the aggregated value of the right-of-use assets in respect of the transactions contemplated under the lease agreements is less than 5%, the transactions contemplated under the lease agreements are subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company had duly announced the said transactions on 7 July 2017, 10 July 2017, 7 July 2020 and 10 July 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

On 11 December 2020, Xingyao Micro-finance entered into the Creditor's Rights Transfer Agreement with Xing Yao Construction, pursuant to which Xingyao Micro-finance agreed to sell and transfer, and Xing Yao Construction agreed to accept the creditor's rights against certain borrowers at a consideration of RMB3,390,000 (equivalent to approximately HK\$4,034,100). The entering into of the Creditor's Rights Transfer Agreement allows Xingyao Micro-finance the chance to recoup the outstanding loans in full by reducing the default risks exposure to those borrowers.

Prior to entering into the Creditor's Rights Transfer Agreement, Xingyao Micro-finance and Xing Yao Construction entered into the Previous Transactions. The Company has duly announced the Previous Transactions on 27 December 2018 and 18 October 2019.

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

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

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

Save as disclosed above, during the year ended 31 December 2020, there was no other connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

INDEBTEDNESS

The following table sets forth our outstanding borrowings as at the dates indicated:

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

EMPLOYMENT AND EMOLUMENTS

As at 31 December 2020, the Company had approximately 121 employees (2019: 128). Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid, which are commensurate with the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance, etc.

SIGNIFICANT INVESTMENT

Save and except for the wealth management products issued by banks in the PRC, the Group had no significant investments held during the year ended 31 December 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

CHARGE ON THE GROUP'S ASSETS

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

Other than the bank loans we obtain from commercial banks, we may also consider conducting financing on the platform of 浙江股權交易中心 (Zhejiang Equity Exchange Centre*) and financing on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*), foreign financing or other investments plans or choices. Nevertheless, as at the date of this 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 foreign financing in EUR. The Group was not exposed to foreign exchange risk arising from any other currency risk. The management will continue to monitor the exposure to foreign exchange and adopt prudent measures to minimize exchange risk.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: nil).

PROSPECTS

With the establishment of China Micro-credit Companies Association (中國小額貸款公司協會) and promulgation of the Classification Standards of Financial Enterprises (《金融業企業劃型標準規定》), the role played by micro-finance companies in the PRC is being increasingly recognized by the relevant authorities. General Secretary Xi Jinping delivered an important speech at the symposium on private enterprises, proposing to solve the financing problem of private enterprises and broaden the financing channels for private enterprises, among which micro-finance companies and other financing channels should be brought into play. The micro-finance industry is expected to benefit from the regulatory aspect as a whole.

Deqing is placed among the nation's top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). A number of high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, thus help cultivating local financial services industry. In addition, Deqing has been designated as a "technological outstanding county (科技強縣)" as well as a "financial innovation demonstration county (金融創新示範縣)" by the Zhejiang provincial government. Therefore, we expect that Deqing will continue to enjoy economic stability and provide us with a relatively conducive market environment to grow our market share as we continue to introduce innovative loan products, broaden business channels, enhance our market penetration and increase our competitive advantages by utilizing the advantage of our capital base.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of our major market of offline business, Zhejiang province is the important birthplace of President Xi Jinping's thought on ecological civilisation, Huzhou is the birthplace of the important thought that "lucid waters and lush mountains are invaluable assets" and the experimental area of the national green finance reform and innovation. We seize the opportunity of reform and innovation to actively explore a sustainable development road of green credit and have been officially listed as the first pilot unit of green micro-finance company in Huzhou since April 2020. In addition, as the main drafter, we participated in the formulation of "Green Micro-finance Company Construction and Evaluation Standard" (Zhejiang Province Huzhou Local Standard) (《綠色小額貸款公司建設與評價規範》(浙江省湖州市地方標準)), which was officially issued and implemented in June 2020. The pilot construction of green micro-finance and implementation of its standards will help the Group to (i) further discover the potential customers of green micro-finance; (ii) better serve the growth of AFR (三農), as well as small and micro enterprises which are low-carbon and environmental friendly; and (iii) further increase the market share.

USE OF PROCEEDS

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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Yu Yin (俞寅), aged 34, 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 from Oxford Brookes University 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. From October 2012, Mr. Yu has been undertaking an Executive Master of Business Administration (EMBA) course in Fudan 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 46.37% of the Domestic Shares.

Mr. Zheng Xuegen (鄭學根), aged 56, was appointed as the executive Director on 28 April 2014. He is the vice chairman, secretary to the Board (resigned on 19 March 2021). 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.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 serves 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.

Mr. Yang Sheng (楊晟), aged 46, 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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 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 subsidiary of the Company. Mr. Yang has served as the general manager of 德清金匯小額貸款有限公司 (Deqing Jinhui Micro-finance Company Limited*), 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.

Ms. Hu Fangfang (胡芳芳), aged 39, 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. 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 47, 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.* (杭州美寶爐窯工程有限公司), 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.

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).

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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Chan Kin Man (陳健民), aged 41, 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 and November 2019, Mr. Chan serves 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 43, 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.

Ms. Yang Jie (楊婕), aged 42, 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). Ms. Yang joined in T&C (Zhejiang) Law Firm (浙江天冊律師事務所) since May 2013 and is a partner at present.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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). Since June 2018, 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 33, 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. Since August 2020, 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). Ms. Zhou obtained an intermediate accountant title in 2016 and obtained a nonpracticing certified public accountant certificate in 2018.

Mr. Wang Suliang (王蘇良), aged 39, was appointed as a Supervisor with effect from 29 June 2020. Mr. Wang 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)) and obtained a bachelor of management degree (major in auditing). From August 2004 to March 2015, Mr. Wang was an officer of Deqing County Tax Service, State Taxation Administration (德清縣國家稅務局). From March 2015 to February 2017, Mr. Wang worked in Zuoli Capital Management Company Limited (佐力資本管理股份有限公司). From February 2017 to April 2018, Mr. Wang worked in the Company. Mr. Wang worked in Deqing Jinhui Micro-finance Company Limited from April 2018 to July 2019. Mr. Wang worked in the Company since July 2019.

Mr. Wang Peijun (王培軍), aged 47, 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)).

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Yao Lifan (姚莉芬), aged 31, 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 2020 till now, 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 spin between 1 January 2020 and 31 December 2020 (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 2020 (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:

This report has been submitted to KPMG Huazhen LLP to conduct limited assurance on selected key data 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.zlkxcd.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

In 2020, in the face of an increasingly stringent financial regulatory environment, the Company insisted on advancing risk prevention and business innovation so as to maintain a good momentum of steady progress, and gradually explored a sustainable development path with differentiation strategy. While making full use of the geographical advantages of Huzhou as the birthplace of the two-mountains theory and the demonstration area of green finance reform, the Company also absorbed foreign advanced green concepts and technologies as a way to actively promote green transformation. It was successfully listed as the first green micro-finance pilot unit in Huzhou in April 2020.

Zuoli Kechuang Micro-finance Company Limited is a young and energetic new force in the financial market. As the largest licensed micro-finance company in Zhejiang Province, 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 responds to the advocate of government policies on supporting "AFR (三農)", places its 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 kinds of business lines, as well as online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products. To respond to the advocate on national environmental protection policies and implement the standards of green micro-finance, the Company has granted loans to green industries to support their business development while declined the provision of loans to those enterprises with high energy consumption, high pollution and high emission level. On top of the above, the Group has also implemented relevant measures on low carbon operation, and made internal protocol in the form of regulatory system and firmly achieved electricity, water and power conservation. Meanwhile, in order to actively respond to the pilot green finance reform program in Huzhou, 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. Through the labour union, the Company provides the disabled with consolation funds in the county and grants loans for the startup of disadvantaged groups totalling RMB670,000 and loans to the education system totalling RMB6.25 million. The Company strongly supported poor students and provided interest-free grants and 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, the Group have implemented measures to strictly comply with the relevant legislations and regulations of the stock exchange 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 to ensure decisions made by the Group's senior management are complied with the internal control system and regulatory requirements and in the interests of Shareholders.

With the integrated development of the Company, its business scale continues to expand and its product forms and offerings become more diversified. In order to standardize the business operation of the Company and its subsidiaries, the Company have developed a business operation system tailored to its own characteristics and needs, which not only provided technical support for the business operation, risk control and finance management of the Company, but also laid the foundation for a standardized credit model.

The transformation of financial markets is an irreversible trend of economic development of the PRC. During this phase, opportunities coexist with challenges, which remind us to always keep a sense of crisis. In view of this, Zuoli Micro-finance will continue to accelerate the pace of green transformation and upgrade and continue to move forward under regulatory adjustments to better practice inclusive finance and green finance in the practice work of green micro-finance pilot.

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*) successfully listed on the Hong Kong Stock Exchange (stock code 06866HK).

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 adhered to our development strategies of enhancing professional development, win-win cooperation, green empowerment and digital empowerment:

- (1) Enhancing professional development. For the purpose of facilitating marketing, management and promoting economies of scale, the Group set clear market positions, focused on our target customers and standardised assets to products. Additionally, such approaches are beneficial to acquire low cost financing and ultimately improve our management standard;
- (2) Win-win cooperation. Through own development and cooperation with different platforms, the Group will fully utilise cluster resources on social platforms;
- (3) Green empowerment. The Group will actively respond to and implement the concept of green financial reforms and innovations to tap the potential of green business;
- (4) Digital empowerment. The Group will leverage 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

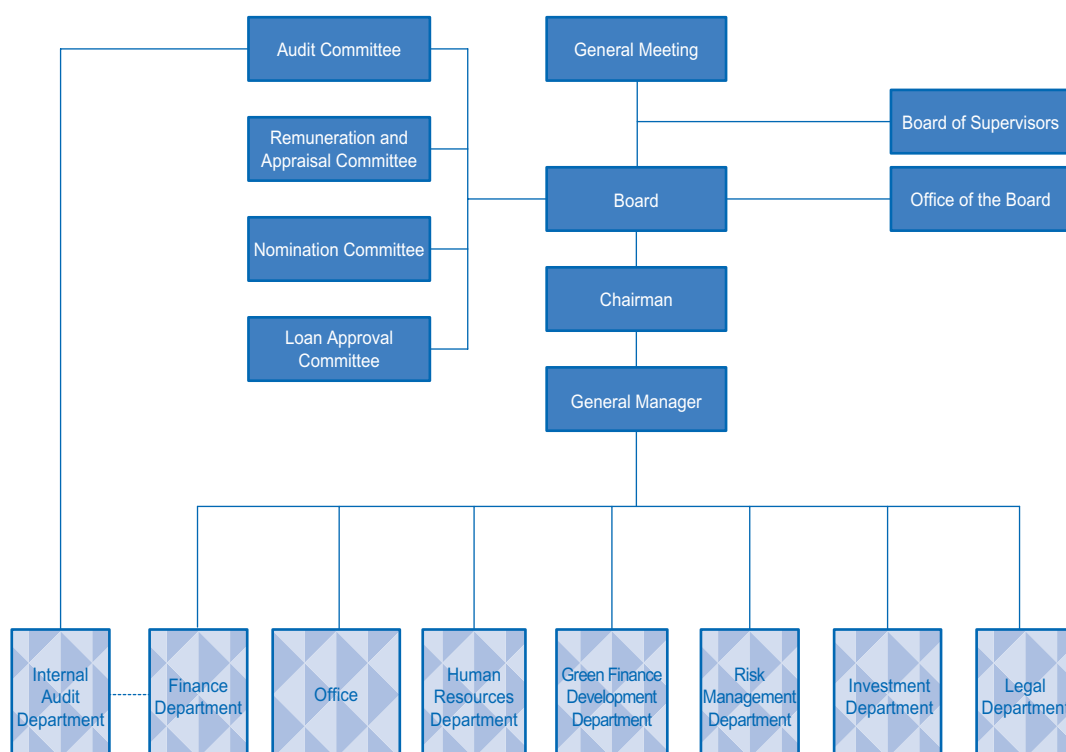
Corporate culture is the soft power of corporate development. Culture matching with the development of the Company will strengthen the staff’s cohesion and encourage them to provide better services for achieving the Company’s strategies. The Group continues to develop its business while emphasizing on 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*:



* The structure shall take effect upon the approval of the resolution by the Board of the Company on 19 March 2021.

1. ABOUT US (Continued)

1.2. Table of Key Performance

Key Performance Indicators ¹	Unit	2020	2019
Economic Performance			
Net interest income	RMB0'000	25,597	27,080
Total profit	RMB0'000	16,207	18,848
Net profit attributable to shareholders of the parent			
Company	RMB0'000	11,024	13,159
Basic earnings per share	RMB	0.09	0.11
Total assets	RMB0'000	260,438	252,741
Total liabilities	RMB0'000	75,545	78,111
Impaired loan ratio	%	4.76	4.25
Provision coverage ratio	%	152.19	145.02
Social Performance			
Total taxes paid	RMB0'000	6,965	8,021
Total donations	RMB0'000	210	14
Total employees	person	121	128
Including: Male employees	person	58	60
Female employees	person	63	68
Ethnic-minority employees	person	1	1
Turnover rate of employees (under contracts)	%	16.41	16.31
Total training input	RMB0'000	10	7
Social contribution per share	RMB/share	0.21	0.24
Environmental Performance			
Remaining balance of internet loans	RMB0'000	2,776	3,744
Per capita urban electricity consumption	kWh/person	2,744.20	2,146.23
Per capita urban water consumption	ton/person	30.64	34.43
Per capita Xerox paper consumption	kilogram/person	8.74	5.57

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT US (Continued)

1.3. Honours (Continued)

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

In April 2020, the Company was listed as the first green micro-finance pilot unit in Huzhou;

In August 2020, Huzhou Daily published the “Green Finance Helps Micro-finance Companies Solve Financing Problems” for the Company;

In September 2020, the green loan information management system independently developed by the Company obtained the national software copyright;

In November 2020, 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);

In December 2020, the Transform to Green Micro-finance with Commitment to Sustainable Development (《轉型綠色小貸·致力可持續發展》) declared by the Company was awarded the 2020 green finance innovation case in Huzhou.

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 2020.

The stakeholders identified by the Group include:

Stakeholders	Expectations and demands	Forms of Communication	Response Measures
Government	1. Facilitating economic development	1. Government documents	1. Facilitating economic development of the regions of operation
	2. Adhering to Anticorruption and clean governance	2. Interviews	2. Supporting micro enterprises and AFR (三農)
	3. Energy conservation and emission reduction	3. Reporting statistics	3. Steady increase in taxes paid
	4. Green operation	4. National initiative	4. Promoting paperless office
		5. Green clarity activities	5. Promoting energy conservation and emission reduction in operation
Regulatory bodies	1. Compliance with regulations	1. Policies and regulations	1. Refined corporate governance
	2. Risk management and control	2. Year-end appraisal	2. Compliance with regulatory policies and regulations
	3. Order maintenance in financial sector	3. Industry conference	3. Stringent control of risk
		4. Work reporting	4. Cooperating in assessment

1. ABOUT US (Continued)

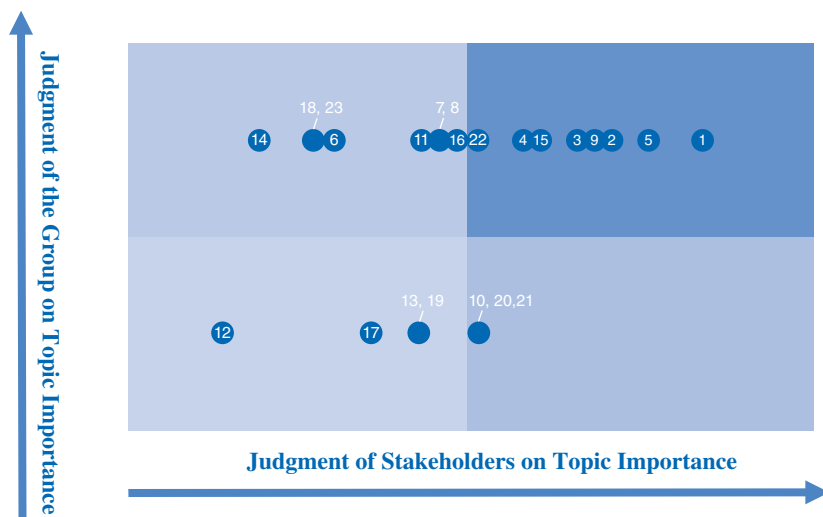
1.4. Analysis of Stakeholders (Continued)

Stakeholders	Expectations and demands	Forms of Communication	Response Measures
Shareholder	Refined corporate governance	1. General meeting	1. Steady operation, refined allocations of dividends
		2. Periodic announcements	2. Improving operational performance
Customer	1. Customer information security	1. Customer feedbacks	1. Further developing technology finance
	2. Technology finance	2. Official website	2. Better protection of customer interests
	3. Supporting micro enterprises and AFR (三農)	3. Third party platform	3. Better service quality
	4. Better customer services		4. Increasing loans to micro enterprises and AFR (三農)
	5. Assisting the disadvantaged		5. Providing supporting loans for the disadvantaged
	6. Information disclosure		6. Improving the information disclosure process
Supplier	Fair procurement	1. Procurement information	1. Refined management system of suppliers
		2. Negotiations	2. Establishment of long-term partnership with suppliers
		3. Procurement contract	
Employee	1. Staff career development	1. Employee representatives' congresses	1. Safeguarding basic interests of staff
	2. Safeguarding staff interests	2. Periodic internal communication	2. Organizing cultural and sports activities and trainings
	3. Staff remuneration and benefits		3. Listening to employee viewpoints
	4. Staff trainings		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 development strategies of the Company.



Importance analysis matrix

- 1 Customer information security
- 2 Better customer services
- 3 Adhering to anti-corruption and clean governance
- 4 Safeguarding of staff interests
- 5 Compliance with operation
- 6 Staff incentives
- 7 Order maintenance in financial sector
- 8 Refining of corporate governance
- 9 Information disclosure
- 10 Support for the disadvantaged
- 11 Risk management and control
- 12 Charity and public benefit activities
- 13 Popularizing financial knowledge
- 14 Staff trainings
- 15 Green operation
- 16 Support for micro-nterprise and AFR
- 17 Technology finance
- 18 Staff career development
- 19 Facilitating economic development
- 20 Fair procurement
- 21 Outstanding investment return
- 22 Financial innovation
- 23 Energy conservation and emission reduction

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 our customers, but also provided a more convenient financing channel for SMEs.

The Zhejiang Financial Office ([2015] No. 75 document on Promoting the Innovative Development of Micro-finance Company* (關於促進小額貸款公司創新發展的浙金融辦[2015]75號文件) is promulgated by the Financial Work Office of the People’s Government of Zhejiang Province* (浙江省人民政府金融工作辦公室) (now known as Zhejiang Provincial Financial Regulatory Bureau* (浙江省地方金融監督管理局)). Pursuant to the document, the Group lifted the importance of support to “AFR (三農)” and micro enterprises to the level of fundamental strategies of the Company.

2. ECONOMIC RESPONSIBILITIES (Continued)

2.1. Promoting economic development

2.1.1. Supporting local economic development

According to the requirements of the Financial Work Office of the People's Government of Zhejiang Province* (浙江省人民政府金融工作辦公室) (now known as 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, Hanzhou City). Therefore, non-online loans of the Group can efficiently promote the economic growth of our regions of the operation.

As of 31 December 2020, the balance of non-online loans of the Group was RMB2,529.91 million (excluding accrued interests), representing an increase of RMB84.64 million as compared with RMB2,445.27 million (excluding accrued interests) as at 31 December 2019.

2.1.2. Supporting real economies

For the purpose of meeting the genuine demand of diversified and different customers and contributing to the development of real economies, various corporate loan balances granted by the Group for supporting real economies amounted to RMB994.72 million (excluding accrued interests) as of 31 December 2020, representing an increase of RMB116.35 million as compared to that of RMB878.37 million (excluding accrued interests) as of 31 December 2019.

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 control, the loan balance granted by the Group to sole proprietors amounted to RMB582.74 million (excluding accrued interests) as of 31 December 2020, representing an increase of RMB144.03 million as compared with RMB438.71 million (excluding accrued interests) as at 31 December 2019.

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 2020, 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 2020, the Group's offline loan balance for "AFR (三農)" amounted to RMB2,069.55 million (excluding accrued interests), increased by RMB109.84 million as compared to that of RMB1,959.71 million (excluding accrued interests) in 2019.

2.1.5 Supporting green development

As the pilot unit of green micro-finance company in Huzhou, the Company adheres to green oriented and scientific development, and grants green loans to the green project, ecological tourism, photovoltaic power generation, forestry seedling and other environmental-friendly and energy-saving industrial projects. As of 31 December 2020, the balance of green loans of the Company is RMB 241.72 million (excluding accrued interest).

2. ECONOMIC RESPONSIBILITIES (Continued)

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 2020, the loan balance for educational business of the Group amounted to RMB6.25 million (excluding accrued interests). As of 31 December 2019, the loan balance for educational business of the Group amounted to RMB7.78 million (excluding accrued interests). In 2020, the Group granted interest-free loans in an accumulated amount of RMB100 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.

In 2020, the Group actively advanced the transformation to green micro-finance. A set of green loan information management system was independently developed by our technical team. The system uses environment, policy, industry, corporate and other data to identify loans in a green and intelligent way so as to integrate green services into the whole process of loans. The system has been put into use, and has become the first green system in the micro-finance industry with a national software copyright certificate in China.

3. ENVIRONMENTAL RESPONSIBILITIES

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.

3. ENVIRONMENTAL RESPONSIBILITIES (Continued)

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 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 greening, nursery garden operation. In the meantime, in order to actively respond to and support the building of a national pilot area for green financial reforms and innovations in Huzhou, the Group will continue to adhere to the principle of green development.

3.2. Emission²

“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.

² The calculation of emissions is mainly with reference to the “Environment Key Performance Indicators Reporting Guide”, published by HKEx

3. ENVIRONMENTAL RESPONSIBILITIES (Continued)

3.2. Emission (Continued)

As of 31 December 2020, the Group did not emit any harmful and harmless wastes.

Waste gas emission ³ :	Unit	2020	2019
NO _x emission of vehicles	kilogram	171.15	169.61
NO _x emission of gaseous fuel	kilogram	—	—
Emission of NO_x	kilogram	171.15	169.61
SO ₂ emission ⁴	kilogram	0.27	0.27
Particulate emission ⁵	kilogram	16.32	16.20

Emission of greenhouse gas ⁶ :	Unit	2020	2019
Direct greenhouse gas emission of fuels in stationary sources (CO ₂ equivalent)	ton	4.97	6.60
Direct greenhouse gas emission of vehicles (CO ₂ equivalent)	ton	43.11	42.81
Direct greenhouse gas emission and reduction (CO ₂ equivalent)	ton	48.08	49.41
Energy indirect greenhouse gas emission (CO ₂ equivalent) ⁷	ton	269.81	223.22
Other indirect greenhouse gas emission (CO ₂ equivalent) ⁸	ton	5.07	4.64
Total greenhouse gas emission (CO₂ equivalent)	ton	322.96	277.27
Greenhouse gas emission per capita (CO ₂ equivalent)	Ton/person	2.67	2.17

³ Figures in the above table are data of “the Group”

⁴ Mainly refers to SO₂ 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. ENVIRONMENTAL RESPONSIBILITIES (Continued)

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 the Articles of Association, 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 2020 was 30.64 tonnes/person.

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

As of 31 December 2020, the Group did not produce any finished products, and did not use any packaging materials for finished products.

Use of resources ⁹	Unit	2020	2019
Electricity consumption	kWh	332,047.95	274,717.41
Electricity consumption per capita	kWh/person	2,744.20	2,146.23
Oil consumption	litre	18,266.82	17,636.49
Oil consumption per capita	litre/person	150.97	137.79
Gas consumption	cubic meter	2,297.00	3,049.50
Gas consumption per capita	cubic meter/person	18.98	23.82
Water consumption	ton	3,707.32	4,407.63
Water consumption per capita	ton/person	30.64	34.43
Copy paper consumption	kilogram	1,057.17	712.73
Copy paper consumption per capita	kilogram/person	8.74	5.57

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, everything they do 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 assessments and effective communication mechanisms, and improved their working ability 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.

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

The Group respects gender, age, ethnic group and religion of every individual staff. Discrimination against the 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 2020, 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	2020	2019
Male staff	person	58	60
Female staff	person	63	68
	person	121	128
Ethnic minorities	person	1	1
Han ethnic group	person	120	127
	person	121	128
Master's degree	person	4	2
Bachelor's degree	person	60	56
Tertiary education level	person	37	49
Below tertiary education level (exclusive)	person	20	21
	person	121	128
30 years old and below	person	43	55
31–40 years old	person	52	47
41–50 years old	person	14	17
51 years old and above	person	12	9
	person	121	128

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

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

Statistics of staff	Unit	2020	2019
Within Zhejiang province	person	106	104
Outside Zhejiang province	person	15	24
	person	121	128
Contracted staff	person	121	128
Departed staff	person	21	23
Turnover rate of male staff	%	11.67	14.29
Turnover rate of female staff	%	20.59	17.95
Turnover rate of staff within Zhejiang Province	%	15.38	16.07
Turnover rate of staff outside Zhejiang Province	%	20.83	17.24
Turnover rate of staff of 30 years old and below	%	18.18	19.74
Turnover rate of staff of 31–40 years old	%	19.15	15.00
Turnover rate of staff of 41–50 years old	%	5.88	6.25
Turnover rate of staff of 51 years old and above	%	11.11	11.11
Staff turnover rate	%	16.41	16.31

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, "Let's talk about corporate culture* (企業文化大家談)".

The management of the Group informs staff the latest development status and future planning of the Company in a timely manner. The Group believes an 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 promotion management 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	2020	2019
Total training expense	RMB0'000	10	7
Training participants	Person-time	530	489
Training expense per capita	RMB'000/ Person	0.83	0.55
Total training time	Hour	226	242
Training time per capita	Hour/Person- time	2.33	1.99
Number of senior staff participating in training	Person	11	10
Training time of senior staff per capita	Hour/Person- time	3.96	3.57
Number of middle staff participating in training	Person	21	24
Training time of middle staff per capita	Hour/Person- time	2.14	1.92
Number of junior staff participating in training	Person	68	58
Training time of junior staff per capita	Hour/Person- time	2.19	1.85
Number of male staff participating in training	Person	42	40
Training time of male staff per capita	Hour/Person- time	2.21	1.55
Number of female staff participating in training	Person	58	52
Training time of female staff per capita	Hour/Person- time	2.43	2.31
Number of contracted staff participating in training	Person	100	92

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 2020, the Group provided employees with training on the "management of bad business disposal during the epidemic", "learning of corporate credit management and operating procedures", "the impact of the civil code on micro-finance companies" and "new issues on credit and legal risk management of micro-finance companies". At the same time, the Group organized some senior management personnel to participate in the EMBA course offered by the School of Management of Fudan University, and the middle-level management personnel participate in the professional training courses offered by the School of Management of Fudan University.

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 May 2020, the Group organized the “lecture meeting given by medical staff from Deqing fighting the pandemic in Wuhan for Zuoli” (德清援鄂醫護人員進佐力宣講報告會). In July 2020, the Group also organized its staff to carry out reading sharing sessions. In November 2020, the Group organized a photography competition for its employees.

4.1.6. Occupational health and safety

Occupational health and safety of the staff are always concerns of the Group. In the reporting period, the Group provided body checks for all 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 18 suppliers, among which , 17 are from Yangtze River Delta regions, and 1 is from Shenzhen. Suppliers mainly provided daily office supplies, transportation facilities, recruiting and renovation 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 assessments, selection and supervisions 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

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 forming 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 is strictly prohibited. An independent archival department is set up to centrally manage customer information. Access of the 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. Disclosure of information on websites, Wechat or other media channels requires the agreement of the Board Office and the Board Secretary.

4.3.3. Better customer services

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

Customer services provided by the Group:

1. Environmentally: booth, tea and coffee 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. SOCIAL RESPONSIBILITIES (Continued)

4.4. Other social responsibilities

4.4.1. Product liabilities

The Group has devoted in providing grants and loans for poor university students since its incorporation. In 2020, the Group granted RMB100 thousand interest-free loans for poor 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. In the reporting period, the Group actively involved in social charity activities according to the initiatives of the Financial Work Office of the People's Government of Zhejiang Province* (浙江省人民政府金融工作辦公室) (now known as Zhejiang Provincial Financial Regulatory Bureau* (浙江省地方金融監督管理局)):

1. The Group actively participates in donation of winter clothes for students in Yushu primary school every year;
2. The Group donated RMB2 million to Wukang Jianbao Group (武康健保集團) for the prevention and control of COVID-19 pandemic;
3. The Group donated RMB100 thousand to the people's government of Langchuan Town, Chunan County, Hangzhou City for poverty alleviation.

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 2020, there was neither corruption in the Company, nor any concluded legal cases regarding corrupt practices brought against the Group or its staff.

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 and anti-corruption, sticking to the principle of compliance operation.

5. PROSPECT

2021 is the start of the “14th Five-Year Plan” period. The Central Economic Work Conference has listed the goal of “achieving peak carbon emissions and carbon neutrality” as one of the policy priorities in 2021. Developing green finance will play an increasingly important role in promoting the high-quality development of China’s economy and society.

Looking into 2021, the Group will adhere to 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 explore new, sustainable green credit roads, form 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 for a better home.

5.1. Enhancing the brand value

In 2021, the Group will continue to improve the quality of customer services, and continue to make its contribution in local economic constructions by continuously increasing supports for “AFR (三農)”, real economy, resident consumption and loans to small-to-medium and micro enterprises.

In 2021, the course of the Group in returning to society, along with providing financial support for poverty-stricken university students is in continuous development.

Meanwhile, the Group will further promote the construction of green brand.

5.2. Promoting harmony and integrity

In 2021, 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 helping each other 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 44: Waste gas emission
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 44: Emission of greenhouse gas
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable
A1.4	Total non-hazardous waste produced (in tonnes) 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 45: Use of Resources
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Page 45: Use of Resources
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Page 45: 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 45: Use of Resources
A2.5	Total packaging material used for finished products (in tonnes) 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 43, Green operation; Page 43, Emission; Page 45, 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 46, Statistics of staff
B1.2	Employee turnover rate by gender, age group and geographical region.	Page 47, 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 49: 4.1.6. Occupational health and safety

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Number	Details	Place of Disclosure
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Page 48, Staff training
B3.2	The average training hours completed per employee by gender and employee category.	Page 48, 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 49, 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 49, 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 50, the second paragraph of 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 50, 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 51: 4.4.1. Product liabilities; Page 51: 4.4.2. Rewarding the society
B8.2	Resources contributed (e.g. money or time) to the focus area.	Page 51: 4.4.1. Product liabilities; Page 51: 4.4.2. Rewarding the society

* For identification purpose only

REPORT OF THE DIRECTORS

The Directors are pleased to present the report together with the audited financial statements of the Group for the year ended 31 December 2020.

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.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 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.

REPORT OF THE DIRECTORS

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 2020 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 2020, 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 2020 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 88 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 2020 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 2020 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 not to recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

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 Thursday, 24 June 2021 to Tuesday, 29 June 2021, both days inclusive, during which period no share transfers will be registered. The holders of Shares whose names appear on the register of members of the Company on Tuesday, 29 June 2020 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 Wednesday, 23 June 2021.

CHARITABLE DONATIONS

The Group donated RMB2.1 million to help the disadvantaged in the year ended 31 December 2020.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Group as at 31 December 2020 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 2020 are set out in the section headed “Combined Statement of Changes in Equity” of this report.

REPORT OF THE DIRECTORS

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 2020 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 2020.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this report, no equity-linked agreements were entered into during the year ended 31 December 2020 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 2020.

Name	Age	Position	Appointment Date
Directors			
Mr. Yu Yin	34	Executive Director and chairman of the Board	28 April 2014
Mr. Zheng Xuegen	56	Executive Director, vice-chairman and secretary to the Board	28 April 2014
Mr. Yang Sheng	46	Executive Director, vice-chairman of the Board and General Manager	7 April 2016
Ms. Hu Fangfang	39	Executive Director, Chief Financial Controller	28 June 2019
Mr. Pan Zhongmin (formerly known as Pan Zhongming)	47	Non-executive Director	8 August 2014
Mr. Ho Yuk Ming, Hugo*	49	Independent non-executive Director	28 April 2014
Mr. Jin Xuejun*	62	Independent non-executive Director	28 April 2014
Ms. Huang Lianxi*	58	Independent non-executive Director	28 April 2014
Mr. Chan Kin Man	41	Independent non-executive Director	29 June 2020
Mr. Zhao Xuqiang	43	Independent non-executive Director	29 June 2020
Ms. Yang Jie	42	Independent non-executive Director	29 June 2020
Supervisors			
Mr. Dai Shengqing**	53	Supervisor	8 August 2014
Mr. Wang Peijun	47	Supervisor	8 August 2014
Ms. Yang Zhenlan**	29	Supervisor	15 May 2018
Ms. Zhou Mingwan	33	Supervisor	29 June 2020
Mr. Wang Suliang	39	Supervisor	29 June 2020

* Mr. Ho Yuk Ming, Hugo, Mr. Jin Xuejun and Ms. Huang Lianxi ceased to act as independent non-executive Directors due to expiration of their term of office on 29 June 2020.

** Mr. Dai Shengqing and Ms. Yang Zhenlan retired as a Supervisor due to expiration of their term of office on 29 June 2020.

REPORT OF THE DIRECTORS

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.

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 27 to 32 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 for a specific term of 3 years.

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 for a specific term of 3 years.

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 2020.

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 2020 and 2019.

No director waived or agreed to waive any remuneration for the year ended 31 December 2020 and 2019.

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 2020.

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

As at 31 December 2020, 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	88,000,000 (L)	Beneficial owner ⁽²⁾	10.00%	7.46%
	Domestic Shares	320,061,040 (L)	Interests held jointly with another person ⁽²⁾	36.37%	27.12%
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 2020, 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 2020, 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 34.58% 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 34.58% 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.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2020, 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 2020, 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	408,061,040 (L)	Interest of a controlled corporation ⁽²⁾⁽³⁾	46.37%	34.58%
Puhua Energy	Domestic Shares	293,130,000 (L)	Beneficial owner ⁽²⁾	33.31%	24.84%
	Domestic Shares	114,931,040 (L)	Interests held jointly with another person ⁽²⁾	13.06%	9.74%
Zuoli Holdings	Domestic Shares	408,061,040 (L)	Interest of a controlled corporation ⁽²⁾⁽⁴⁾	46.37%	34.58%
Deqing Yintian	Domestic Shares	408,061,040 (L)	Interest of a controlled corporation ⁽²⁾⁽⁵⁾	46.37%	34.58%
Mr. Shen Haiying	Domestic Shares	7,630,000 (L)	Beneficial owner ⁽²⁾	0.87%	0.65%
	Domestic Shares	400,431,040 (L)	Interests held jointly with another person ⁽²⁾	45.50%	33.93%
Dingsheng Investment	Domestic Shares	408,061,040 (L)	Interests held jointly with another person ⁽²⁾	46.37%	34.58%
Mr. Zhang Jianming	Domestic Shares	19,301,040 (L)	Beneficial owner ⁽²⁾	2.19%	1.64%
	Domestic Shares	388,760,000 (L)	Interests held jointly with another person ⁽²⁾	44.18%	32.95%

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	67,830,000 (L)	Beneficial owner	22.61%	5.75%
Gawsun (HK) International Trading Co., Limited	H Shares	65,860,000 (L)	Beneficial owner	21.95%	5.58%
Tamai Investments Corp.	H Shares	20,650,000 (L)	Trustee	6.88%	1.75%

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 2020, 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 2020, 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 34.58% 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 34.58% 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) Puhua Energy is wholly owned by Zuoli Holdings. 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 2020, 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 2020.

REPORT OF THE DIRECTORS

CONTRACTS OF SIGNIFICANCE

During the year ended 31 December 2020, 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 2020 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.

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 2020.

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 20 April 2020, Puhua Energy, a substantial shareholder, has charged 264,000,000 Domestic Shares, representing 22.37% of the total issued share capital of the Company, in favour of Zheli Financial Service as security for a facility provided to Zuoli Holdings.

For details of the above, please refer to the announcements of the Company dated 8 April 2019 and 20 April 2020, respectively.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2020, 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

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 2020, Mr. Yu Yin, an executive Director and the Chairman of the Board, and other related parties had guaranteed some of our interest-bearing borrowings. As at 31 December 2020, the amount of guarantee provided by Mr. Yu Yin and other related parties amounted to RMB469.4 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the said provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

The independent non-executive Directors have reviewed all the above continuing connected transactions and confirmed that these transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and conducted in accordance with the relevant agreements governing them on terms which are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company was engaged to report on all the above Group's continuing connected transactions in accordance with the applicable accounting standards. The auditor has issued the unqualified letter containing the findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS

For the year ended 31 December 2020, the Company and Jinhui Micro-finance (a non-wholly owned subsidiary of the Company) leased properties from Zuoli Holdings with a depreciation on right-of-use assets and interest expense of RMB2.4 million. The entering into of the lease agreements allow the Company and Jinhui Micro-finance to maintain their operational needs. 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 under the Listing Rules. Such related party transactions constituted connected transactions under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio for the aggregated value of the right-of-use assets in respect of the transactions contemplated under the lease agreements is less than 5%, the transactions contemplated under the lease agreements are subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company had duly announced the said transactions on 7 July 2017, 10 July 2017, 7 July 2020 and 10 July 2020.

On 11 December 2020, Xingyao Micro-finance entered into the Creditor's Rights Transfer Agreement with Xing Yao Construction, pursuant to which Xingyao Micro-finance agreed to sell and transfer, and Xing Yao Construction agreed to accept the creditor's rights against certain borrowers at a consideration of RMB3,390,000 (equivalent to approximately HK\$4,034,100). The entering into of the Creditor's Rights Transfer Agreement allows Xingyao Micro-finance the chance to recoup the outstanding loans in full by reducing the default risks exposure to those borrowers.

Prior to entering into the Creditor's Rights Transfer Agreement, Xingyao Micro-finance and Xing Yao Construction entered into the Previous Transactions. The Company has duly announced the Previous Transactions on 27 December 2018 and 18 October 2019.

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

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

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

Save as disclosed above, during the year ended 31 December 2020, there was no other connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

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 2020. 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 2020 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, 19 March 2021

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 Mr. Wang Suliang, Ms. Zhou Mingwan and Mr. Wang Peijun.

During the year ended 31 December 2020, 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 2020 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 2020.

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 2020 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 2020 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*)
Wang Suliang
Chairman of the Board of Supervisors

Hong Kong, 19 March 2021

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 2020, 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 27 to 32 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.

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. All Directors have 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.

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 27 to 32 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 2020, the Company organized trainings in relation to Environmental, Social and Governance Reporting Guide and revised provisions of 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.

CORPORATE GOVERNANCE REPORT

A summary of training received by the current Directors for the year ended 31 December 2020 is as follows:

Name of Directors	Types of training	
	Attending in-house training organized by professional organizations	Reading materials updating on new rules and regulations
<i>Executive Directors</i>		
Yu Yin	✓	✓
Zheng Xuegen	✓	✓
Yang Sheng	✓	✓
Hu Fangfang	✓	✓
<i>Non-executive Director</i>		
Pan Zhongmin	✓	✓
<i>Independent non-executive Directors</i>		
Ho Yuk Ming, Hugo*	✓	✓
Jin Xuejun*	✓	✓
Huang Lianxi*	✓	✓
Chan Kin Man	✓	✓
Zhao Xuqiang	✓	✓
Yang Jie	✓	✓

* Mr. Ho Yuk Ming, Hugo, Mr. Jin Xuejun and Ms. Huang Lianxi ceased to act as an independent non-executive Director due to expiration of their term of office on 29 June 2020.

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 2020, 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.

CORPORATE GOVERNANCE REPORT

(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 and assess the independence of independent non-executive Directors. 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 D.3.1 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 2020 is set out in the table below. The Directors did not authorize any alternate Director to attend the Board or Board Committee meetings.

Name of Directors	Attendance/Number of Meetings					
	Board	Nomination Committee	Remuneration and Appraisal Committee	Audit Committee	Loan Approval Committee	General Meeting
Yu Yin	8/8	2/2	1/1	N/A	N/A	1/1
Zheng Xuegen	8/8	N/A	N/A	N/A	1/1	1/1
Yang Sheng	8/8	N/A	N/A	N/A	1/1	1/1
Hu Fangfang	8/8	N/A	N/A	N/A	1/1	1/1
Pan Zhongmin	8/8	N/A	N/A	N/A	N/A	1/1
Ho Yuk Ming, Hugo*	2/2	N/A	1/1	2/2	N/A	1/1
Jin Xuejun*	2/2	2/2	1/1	2/2	N/A	1/1
Huang Lianxi*	2/2	2/2	N/A	2/2	N/A	1/1
Chan Kin Man	6/6	N/A	N/A	2/2	N/A	N/A
Zhao Xuqiang	6/6	N/A	N/A	2/2	N/A	N/A
Yang Jie	6/6	N/A	N/A	2/2	N/A	N/A

* Mr. Ho Yuk Ming, Hugo, Mr. Jin Xuejun and Ms. Huang Lianxi ceased to act as an independent non-executive Director on 29 June 2020 due to expiration of his/her term of office.

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 2020, 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 2020, the Company convened a general meeting of the Company held on 29 June 2020. All Directors attended the meeting that they were required to attend.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the “**Board Diversity Policy**”) in March 2015 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.

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 Ms. Wang Suliang, 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.

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 2020.

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

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 2020, Ms. Ho complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

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 2020, fee payable to KPMG for the annual audit services was RMB1.9 million (2019: RMB1.8 million); and RMB100,000 (2019: RMB100,000) for the non-audit services of limited assurance on the ESG Report of the Group and continuing connected transaction of the Company for the year ended 31 December 2020.

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.

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 meeting. 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 for the amended pursuant to the resolution of the Shareholders passed on 30 June 2015, 7 April 2016, 28 April 2017 and 28 June 2018. In 2020, certain amendments were made to the Articles of Association concerning the notice period of convening the general meeting, the rights of Shareholders to propose resolutions and the convening procedures. These amendments were duly passed by the Shareholders at the general meeting of the Company held on 29 June 2020 and the amended version of the Articles of Association has been adopted since then. Save as disclosed above, there was no change made to the Articles of Association during the year ended 31 December 2020.

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

RISK MANAGEMENT AND INTERNAL CONTROL

During the year ended 31 December 2020, 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 has overseen the Company's risk management and internal control systems on an ongoing basis. For the year ended 31 December 2020, the Board has reviewed the effectiveness of the Company's and its subsidiaries' risk management and internal control systems, and the systems are considered to be effective and adequate. The Board has been conducted 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.

INDEPENDENT AUDITOR'S REPORT



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 88 to 152, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020 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 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.

INDEPENDENT AUDITOR'S REPORT

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 98 to page 100.

The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 December 2020, the Group's loans and advances to customers amounted to RMB2,587.7 million, with allowances for impairment totalling RMB187.5 million.</p> <p>The Group uses the expected credit loss ("ECL") model to measure the loss allowance in accordance with HKFRS 9, Financial instruments ("HKFRS 9").</p> <p>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.</p> <p>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 for loans and advances to customers and other adjustment factors. The economic impact of the Covid-19 has added additional challenges to management's judgement.</p> <p>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.</p>	<p>Our audit procedures to assess the allowances for impairment of loans and advances to customers included the following:</p> <ul style="list-style-type: none">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 98 to page 100.

The Key Audit Matter	How the matter was addressed in our audit
<p>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.</p>	<ul style="list-style-type: none"> • 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, with a particular focus on the economic impact of COVID-19; • 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 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 103.

The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 December 2020 the carrying value of the Group's goodwill, which arose from the acquisition of two subsidiaries in the previous years, was RMB20.9 million.</p> <p>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.</p> <p>We identified the potential 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, including the impact of COVID-19 and could be subject to management bias.</p>	<p>Our audit procedures to assess the potential impairment of goodwill included the following:</p> <ul style="list-style-type: none"> • 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 responsibility for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

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 HKSAAs 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 HKSAAs, 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 Chan Siu Tung.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

19 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

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

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

(Expressed in RMB'000, unless otherwise stated)

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

Approved and authorised for issue by the board of directors on 19 March 2021.

Yu Yin
Chairman of the Board

Yang Sheng
Executive Directors

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Capital reserve	Surplus reserve	General risk reserve	Retained profits	Total			
	RMB'000 Note 22(c)	RMB'000 Note 22(d)(i)	RMB'000 Note 22(d)(ii)	RMB'000 Note 22(d)(iii)	RMB'000	RMB'000			
Balance at 31 December 2019 and 1 January 2020	1,180,000	980	44,048	58,727	353,213	1,636,968	109,337	1,746,305	
Changes in equity for year ended 31 December 2020:									
Profit and total comprehensive income for the year	—	—	—	—	110,244	110,244	7,579	117,823	
Appropriation to surplus reserve	—	—	1,885	—	(1,885)	—	—	—	
Appropriation to general risk reserve	—	—	—	2,908	(2,908)	—	—	—	
Dividends approved in respect of the previous year (Note 22(b))	—	—	—	—	—	—	(15,200)	(15,200)	
Balance at 31 December 2020	1,180,000	980	45,933	61,635	458,664	1,747,212	101,716	1,848,928	
Balance at 31 December 2018 and 1 January 2019	1,180,000	980	43,692	58,749	369,460	1,652,881	100,136	1,753,017	
Changes in equity for year ended 31 December 2019:									
Profit and total comprehensive income for the year	—	—	—	—	131,587	131,587	9,201	140,788	
Appropriation to surplus reserve	—	—	356	—	(356)	—	—	—	
Reversal to general risk reserve	—	—	—	(22)	22	—	—	—	
Dividends approved in respect of the previous year (Note 22(b))	—	—	—	—	(147,500)	(147,500)	—	(147,500)	
Balance at 31 December 2019	1,180,000	980	44,048	58,727	353,213	1,636,968	109,337	1,746,305	

The accompanying notes form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2020
(Expressed in RMB'000, unless otherwise stated)

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

The accompanying notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

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

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

(c) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, Definition of a Business
- Amendment to HKFRS 16, Covid-19-Related Rent Concessions

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 HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

As the Group did not enter into any acquisition for the year ended 31 December 2020, the amendments have no impact on the Group’s financial statements.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

As there is no rent concession granted to the Group for the year ended 31 December 2020, the amendment has no impact on the Group’s financial statement.

(d) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net identifiable assets.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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 the number of shares to be issued is fixed, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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 recognised in the capital reserve until either the notes are converted or redeemed.

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

(ii) *Other convertible notes*

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

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

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

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

(l) Cash and cash equivalents

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

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).

- 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Provisions and contingent liabilities (Continued)

(ii) *Contingent liabilities assumed in business combinations*

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

(r) Revenue and other income

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

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

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

(i) *Interest income*

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

(ii) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) Translation of foreign currencies

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)**(s) Translation of foreign currencies (Continued)**

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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:

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

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's net interest income during the years ended 31 December 2020 and 2019. Details of concentration of credit risk are set out in Note 23(a).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

2 NET INTEREST INCOME (Continued)

For the years ended 31 December 2020 and 2019, the directors have determined that the Group has only one single business component/reportable segment as the Group is principally engaged in providing lending services which is the basis to allocate resources and assess performance of the Group.

The principal place of the Group's operation is Zhejiang province in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded Zhejiang province as its place of domicile. All the Group's revenue and assets are principally attributable to Zhejiang province, being the main operating region.

3 OTHER NET INCOME

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

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

4 IMPAIRMENT LOSSES

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

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

The Group is required to participate in the pension scheme organised by the municipal government of Zhejiang Province whereby the Group is required to pay annual contributions for PRC based employees at certain rate of the standard wages determined by the relevant authorities in the PRC during the year. The Group has no other material obligation for payment of retirement benefits to the PRC based employees beyond the annual contributions described above.

(b) Other items

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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

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

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

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

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

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

7 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	2019				
	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	412	20	140	578
Executive directors					
Zheng Xuegen (鄭學根)	6	342	19	140	507
Yang Sheng (楊晟)	6	372	19	140	537
Hu Haifeng (胡海峰) (resigned on 18 April 2019)	3	—	—	—	3
Hu Fangfang (胡芳芳) (appointed on 28 June 2019)	3	167	10	55	235
Non-executive director					
Pan Zhongmin (潘忠敏)	6	—	—	—	6
Independent non-executive directors					
Ho Yuk Ming, Hugo (何育明)	100	—	—	—	100
Jin Xuejun (金雪軍)	100	—	—	—	100
Huang Lianxi (黃廉熙)	100	—	—	—	100
Supervisors					
Dai Shengqing (戴勝慶)	6	—	—	—	6
Wang Peijun (王培軍)	6	—	—	—	6
Yang Zhenlan (楊振嵐)	6	71	5	4	86
	348	1,364	73	479	2,264

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

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

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

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

9 EARNINGS PER SHARE

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

9 EARNINGS PER SHARE (Continued)

(a) Weighted average number of ordinary shares

	2020 '000	2019 '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 2020 and 2019, and therefore, diluted earnings per share are the same as the basic earnings per share.

10 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

10 CASH AND CASH EQUIVALENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

10 CASH AND CASH EQUIVALENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

10 CASH AND CASH EQUIVALENTS (Continued)

(d) Total cash outflow for leases:

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

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

These amounts relate to the following:

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

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Analysed by type of collateral

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Analysed by industry sector

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	31 December 2020				
	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	310	213	269	12,052	12,844
Guaranteed loans	50,500	12,919	19,265	8,002	90,686
Collateralized loans	4,190	—	1,800	14,012	20,002
Total	55,000	13,132	21,334	34,066	123,532

	31 December 2019				
	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	377	377	1,192	16,226	18,172
Guaranteed loans	9,349	818	4,574	20,180	34,921
Collateralized loans	6,500	—	—	11,445	17,945
Total	16,226	1,195	5,766	47,851	71,038

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

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

	31 December 2019			
	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	2,412,683	158	107,199	2,520,040
Less: Allowances for impairment losses	(65,718)	(51)	(89,692)	(155,461)
Net loans and advances to customers	2,346,965	107	17,507	2,364,579

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Movements of allowances for impairment losses

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

	2019			
	12-month ECLs RMB'000	Lifetime ECLs non credit- impaired RMB'000	Lifetime ECLs credit- impaired RMB'000	Total RMB'000
At 1 January 2019	68,298	7,817	57,054	133,169
Transferred to				
– Lifetime ECLs non credit- impaired	(20)	20	—	—
– Lifetime ECLs credit-impaired	(677)	(2,110)	2,787	—
(Reversal)/charge for the year	(1,883)	(5,676)	41,811	34,252
Write off	—	—	(15,597)	(15,597)
Recoveries of loans and advances written off in previous years	—	—	3,637	3,637
At 31 December 2019	65,718	51	89,692	155,461

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality (Continued)

	2019 RMB'000
Gross balance of loans and advances to customers that are assessed for 12-month ECLs	
— Neither overdue nor credit-impaired	2,412,683
Sub-total	2,412,683
Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired	
— Overdue but not credit-impaired	153
— Neither overdue nor credit-impaired	5
Sub-total	158
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired	
— Overdue and credit-impaired	70,885
— Not overdue but credit-impaired	36,314
Sub-total	107,199
Less: Allowances for impairment losses	(155,461)
Net value	2,364,579

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

12 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Notes:

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

13 INTANGIBLE ASSETS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Computer software	1,136	1,753

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

14 GOODWILL

	RMB'000
Cost:	
At 1 January and 31 December 2020	22,502
Accumulated impairment losses:	
At 1 January 2020	—
Impairment loss	(1,562)
At 31 December 2020	(1,562)
Carrying amount:	
At 31 December 2020	20,940
At 31 December 2019	22,502

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

	31 December 2020 RMB'000	31 December 2019 RMB'000
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance")	18,005	18,005
Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd. (杭州市高新區(濱江)興耀普匯小額貸款有限公司) ("Xingyao Micro-finance")	2,935	4,497
	20,940	22,502

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

14 GOODWILL (Continued)

Impairment test

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

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

15 INVESTMENTS IN SUBSIDIARIES

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

Name of Companies	Place of incorporation and business	Paid up capital	Proportion of ownership interest at 31 December 2020 and 31 December 2019		
			Group's effective interest	Held by the Company	Principal activities
Jinhui Micro-finance (Note (i))	Deqing, Zhejiang	1,228,000,000	99.43%	99.43%	Micro-finance
Zuoli Micro-finance Hong Kong International Investment Company Limited (佐力小貸香港國際投資有限公司) ("Zuoli HK") (Note (ii))	Hong Kong	—	100.00%	100.00%	Investment, trading
Xingyao Micro-finance	Hangzhou, Zhejiang	200,000,000	60%	60%	Micro-finance

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

15 INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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 1 January 2019	15,107	3,005	3,762	4,462	1,850	32,006	60,192
Additions	—	—	181	827	5	3,851	4,864
Disposal	—	—	—	(203)	(5)	—	(208)
At 31 December 2019 and 1 January 2020	15,107	3,005	3,943	5,086	1,850	35,857	64,848
Additions	5,977	8,081	—	—	27	25	14,110
Retirement	—	(3,005)	—	—	—	—	(3,005)
At 31 December 2020	21,084	8,081	3,943	5,086	1,877	35,882	75,953
Accumulated depreciation:							
At 1 January 2019	(630)	—	(1,248)	(2,216)	(1,165)	(8,339)	(13,598)
Charge for the year	(398)	(2,001)	(614)	(901)	(268)	(3,038)	(7,220)
Disposal	—	—	—	12	3	—	15
At 31 December 2019 and 1 January 2020	(1,028)	(2,001)	(1,862)	(3,105)	(1,430)	(11,377)	(20,803)
Charge for the year	(493)	(2,126)	(583)	(853)	(244)	(2,968)	(7,267)
Retirement	—	3,005	—	—	—	—	3,005
At 31 December 2020	(1,521)	(1,122)	(2,445)	(3,958)	(1,674)	(14,345)	(25,065)
Net book value:							
At 31 December 2020	19,563	6,959	1,498	1,128	203	21,537	50,888
At 31 December 2019	14,079	1,004	2,081	1,981	420	24,480	44,045

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

16 FIXED ASSETS (Continued)

(b) Right-of-use assets

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

17 OTHER ASSETS

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

18 INTEREST-BEARING BORROWINGS

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

Notes:

- (i) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2020 and 31 December 2019, none of the covenants relating to the bank loans had been breached.
- (ii) In 2020, the Group obtained financings with nominal amount totaling RMB339.9 million at an interest rate ranging from 5.10% to 6.50% per annum by issuing financing products on trading platforms located in the PRC which are due from October 2020 to November 2021. As at 31 December 2020, the remaining balance of these financial products was RMB249.2 million. The above transactions were guaranteed by certain shareholders and related parties.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

18 INTEREST-BEARING BORROWINGS (Continued)

Notes: (Continued)

- (iii) On 20 November 2019, Jinhui Micro-finance, a subsidiary of the Company, issued 5 tranches of convertible notes with a total face value of RMB80.0 million. The maturity date of each tranche is 20 November 2021. The convertible notes bear interest ranging from 6.80% to 7.20% per annum and are guaranteed by certain shareholders and related parties.

The rights of the noteholders to convert the notes into ordinary shares are as follows:

- Jinhui Micro-finance may elect to repay all the convertible notes after 6 months since its issuance,
- Conversion rights are exercisable at the maturity date of the convertible notes.
- If a holder of the five tranches exercises its conversion rights, Jinhui Micro-finance is required to deliver ordinary shares at a rate of one ordinary share for every 1.22 notes converted. The conversion price will be subject to adjustments for reasons including but not limited to (1) bonus issue; (2) share capitalisation; (3) change in registered capital (excluding the increase in registered capital as a result of the issue of the convertible notes); (4) right issue; and (5) distribution of dividends.

Each tranche of the Notes, in respect of which conversion rights have not been exercised, will be redeemed at face value on 20 November 2021.

- (iv) On 11 December 2019, the Group obtained financing with nominal amount totaling EUR7.8 million at an interest rate 4.38% per annum from a financial institution located in Euro zone which is due on 11 December 2022. On 30 October and 16 December 2020, the Group obtained financings with nominal amount totaling EUR7.0 million at an interest rate 4.38% per annum from the same institution which are due on 11 December and 16 December 2022 respectively. On 16 December 2020, the Group obtained financing with nominal amount totaling CNH76.1 million at an interest rate 6.30% per annum from the same institution which is due on 22 May 2022.

The financing is subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratio, as are commonly found in the lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants.

19 LEASE LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

20 ACCRUALS AND OTHER PAYABLES

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

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets recognised:

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

	Share capital RMB'000 Note 22(c)	Surplus reserve RMB'000 Note 22(d)(ii)	General risk reserve RMB'000 Note 22(d)(iii)	Retained profits RMB'000	Total RMB'000
Balance at 31 December 2019 and 1 January 2020	1,180,000	44,048	21,786	123,634	1,369,468
Changes in equity for 2020:					
Total comprehensive income for the year	—	—	—	18,854	18,854
Appropriation to surplus reserve	—	1,885	—	(1,885)	—
Appropriation to general risk reserve	—	—	1,814	(1,814)	—
Balance at 31 December 2020	1,180,000	45,933	23,600	138,789	1,388,322
Balance at 31 December 2018 and 1 January 2019	1,180,000	43,692	24,067	265,649	1,513,408
Changes in equity for 2019:					
Total comprehensive income for the year	—	—	—	3,560	3,560
Appropriation to surplus reserve	—	356	—	(356)	—
Reversal to general risk reserve	—	—	(2,281)	2,281	—
Dividends approved in respect of the previous year (Note 22(b))	—	—	—	(147,500)	(147,500)
Balance at 31 December 2019	1,180,000	44,048	21,786	123,634	1,369,468

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

22 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

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

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

(c) Share capital

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

(d) Nature and purpose of reserves

(i) Capital reserve

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

(ii) Surplus reserve

The surplus reserve represents statutory surplus reserve fund. The Group is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC ("MOF"), to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

Subject to the approval of equity holders of the entities established in the PRC, statutory surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

After making the appropriation to the statutory surplus reserve, the Group may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders. Subject to the approval of shareholders, discretionary surplus reserves may be used to offset previous years' losses, if any, and may be converted into capital.

(iii) General risk reserve

Pursuant to relevant regulations, the Company and its subsidiaries in the PRC engaged in micro-finance business are required to set aside a general risk reserve through appropriations of profit after tax according to 1.5% of the ending balance of gross risk-bearing assets to cover potential losses against these assets.

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 19 March 2021, the proposed profit appropriations for the year ended 31 December 2020 are as follows:

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

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

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

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

(f) Distributable reserves

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

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and stability resulted from a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Group's approach to capital management during the years ended 31 December 2019 and 2020.

Particularly for credit loan business, the Group monitors regularly the residual balance of outstanding credit loans for single customers and multiples of the total outstanding credit loans in relation to share capital of the Group, so as to keep the capital risk within an acceptable limit. The decision to manage the share capital of the Group to meet the needs of developing credit loans business rests with the directors.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

Credit risk arising from micro-finance business

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

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

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

Stage 1

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

Stage 2

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

Stage 3

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

The Group applies the ECL model to measure the impairment loss of the loans and advances to customers.

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 (Continued)*

When a certain number of customers undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to a particular industry or geographic location. As the Group mainly conducts micro-finance business in Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions. At 31 December 2020, 1.55% (31 December 2019: 1.99%) and 6.61% (31 December 2019: 7.58%) of the total loans and advances to customers was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk of loans and advances to customers for each stage is represented by the net carrying amount of each type of financial assets as at the end of the reporting periods. For details, please see Note 11.

Other credit risk

The Group adopts a credit rating approach in managing the credit risk of the treasury business, counterparties' rating are evaluated before transactions with reference to major rating agencies generally recognised by the People's Bank of China.

In respect of interest receivables and other assets, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

(b) Liquidity risk

Management regularly monitors the Group's liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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

(b) Liquidity risk (Continued)

The following tables provide an analysis of the remaining contractual maturities, which are based on contractual undiscounted cash flows (including interest payments, computed using contractual rates) of the financial assets and liabilities of the Group at the end of the reporting periods:

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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

(b) Liquidity risk (Continued)

	31 December 2019					
	Overdue/ Repayment on demand	Within three months	Between three months and one year	Between one year and five years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets						
Cash and cash equivalents	55,310	—	—	—	55,310	55,310
Interest receivables	83	—	—	—	83	83
Loans and advances to customers	71,038	613,784	2,041,654	13,074	2,739,550	2,364,579
Other assets	25	—	—	—	25	25
Total	126,456	613,784	2,041,654	13,074	2,794,968	2,419,997
Liabilities						
Interest-bearing borrowings	—	(56,572)	(553,077)	(151,401)	(761,050)	(715,972)
Lease liabilities	—	(1,400)	—	—	(1,400)	(1,274)
Accruals and other payables	(14,775)	—	—	—	(14,775)	(14,775)
Total	(14,775)	(57,972)	(553,077)	(151,401)	(777,225)	(732,021)
	111,681	555,812	1,488,577	(138,327)	2,017,743	1,687,976

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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

(ii) Sensitivity analysis

At 31 December 2020 and 31 December 2019, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Group's net profit during the next 12 months by approximately RMB291,000 and RMB206,000 respectively.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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	
	2020 Euros RMB'000	2019 Euros RMB'000
Cash and cash equivalents	1	1,954
Interest-bearing borrowings	(118,447)	(58,631)
	(118,446)	(56,677)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the list of foreign currency and the RMB would be materially unaffected by any changes in movement in value of the list of foreign currency against other currencies.

	2020		2019	
	Increase/ (decrease) in foreign exchange rates bps	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates bps	Effect on profit after tax and retained profits RMB'000
Euros	100 (100)	(888) 888	100 (100)	(425) 425

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the Group's profit after tax in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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

At 31 December 2019, no financial instruments were measured at fair value.

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

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

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

(iii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2019 and 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

24 COMMITMENTS

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

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

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

Notes:

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

(b) Balances with key management personnel

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

25 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Other related party transactions

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

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

25 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) Balances with other related parties

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

26 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) Impairment of financial assets measured at amortised cost

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

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

(b) Impairment of long-lived assets

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

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

NOTES TO THE FINANCIAL STATEMENTS

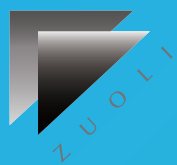
(Expressed in RMB'000, unless otherwise stated)

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

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

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

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



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