

# Annual Report 2021



# TaiHe

**Yangzhou Guangling District Taihe Rural  
Micro-finance Company Limited**

**揚州市廣陵區泰和農村小額貸款股份有限公司**

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

**Stock Code: 1915**

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## Company Profile

### DIRECTORS

#### Executive Directors

Mr. Bo Wanlin (*Chairman*)  
Ms. Bai Li  
Ms. Zhou Yinqing

#### Non-executive Directors

Mr. Bo Nianbin  
Mr. Zuo Yuchao

#### Independent non-executive Directors

Mr. Bao Zhenqiang  
Mr. Wu Xiankun  
Mr. Chan So Kuen

### SUPERVISORS

Ms. Wang Chunhong  
Mr. Zhang Yi  
Ms. Li Guoyan

### BOARD COMMITTEES

#### Audit committee

Mr. Chan So Kuen (*Chairman*)  
Mr. Wu Xiankun  
Mr. Bao Zhenqiang

#### Remuneration committee

Mr. Bao Zhenqiang (*Chairman*)  
Mr. Chan So Kuen  
Mr. Wu Xiankun

#### Nomination committee

Mr. Bo Wanlin (*Chairman*)  
Mr. Wu Xiankun  
Mr. Bao Zhenqiang

#### Company secretaries

Mr. Xu Lei (resigned on 28 June 2021)  
Mr. Lau Kwok Yin (*HKICPA, FCG HKFCG*)

#### Authorised representatives for The Stock Exchange of Hong Kong Limited

Mr. Bo Wanlin  
Mr. Xu Lei (resigned on 28 June 2021)  
Mr. Lau Kwok Yin (appointed on 28 June 2021)  
Ms. Ching Suet Fan (alternate authorised representative to Mr. Lau Kwok Yin) (appointed on 25 Mar 2022)

#### Compliance officer

Ms. Bai Li

#### Headquarters and registered office in the PRC

Beizhou Road, Lidian Town, Guangling District  
Yangzhou City, Jiangsu Province, the PRC

#### Principal place of business in Hong Kong

40th Floor, Dah Sing Financial Centre  
No. 248 Queen's Road East  
Wanchai, Hong Kong

#### Company website address

[www.gltaihe.com](http://www.gltaihe.com)

#### Stock code

1915

#### Auditors and reporting accountants

Ernst & Young  
Certified public accountant  
27/F, One Taikoo Place  
979 King's Road  
Quarry Bay, Hong Kong

## Company Profile

### Legal adviser as to Hong Kong law

Chungs Lawyers *in association with*  
*DeHeng Law Offices*  
28/F, Henley Building  
5 Queen's Road Central  
Central  
Hong Kong

### Legal adviser as to PRC law

Commerce & Finance Law Offices  
12-14/F, China World Office 2  
No.1 Jianguomenwai Avenue  
Beijing, the PRC

### H Share registrar

Tricor Investor Services Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### Principal bankers

Agricultural Bank of China  
(Yangzhou Jiangwang Branch)  
Room B6, Wanduwujinjidiancheng  
Jiangwang Town  
Hanjiang District  
Yangzhou City  
Jiangsu Province  
The PRC

Bank of Communications Co., Ltd.  
Hong Kong Branch  
20 Pedder Street  
Central, Hong Kong

## Financial Highlights

	2021 RMB'000	2020 RMB'000	Changes
<b>OPERATING RESULTS</b>			
Interest income	60,546	75,462	-19.8%
Profit for the year attributable to owners of the parent	4,561	36,735	-87.6%
Basic earnings per share	0.01	0.06	-83.3%
<b>FINANCIAL POSITION</b>			
Loans and accounts receivables	803,143	893,332	-10.1%
Share capital	600,000	600,000	0.0%
Total assets	904,476	907,770	-0.4%
Net assets	887,726	883,165	0.5%
Net assets attributable to owners of the parent	887,726	883,165	0.5%
<b>Dividends</b>			
– Proposed final dividend (per share)	—	—	N/A

## Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the results of the Group for the year ended 31 December 2021 to the shareholders of the Company ("**Shareholder(s)**").

For the year ended 31 December 2021, the Group recorded gross interest income of approximately RMB60.5 million and profit after tax of approximately RMB4.6 million. As at 31 December 2021, the Group's balance of outstanding loans (before allowance for impairment losses) was approximately RMB837.9 million. Total assets as at 31 December 2021 were approximately RMB904.5 million.

Over the years, the Group has been committed to providing flexible, convenient and efficient microfinance services to Yangzhou small and medium-sized enterprises (中小企業), microenterprises (小微企業), individual industrial and commercial households (個體工商戶), and three rural enterprises (三農企業), providing customers with efficient and fast short-term business financing needs.

During 2021, to further strengthen our competitive advantages, we continue to explore business development with advanced financial technology which may enhance the overall operational efficiency. In addition, we will continue to maintain strong cost control and effective risk management while taking into consideration the environmental, social and governance risks facing the Group, to further enhance our Group's institutional sustainability and competitiveness.

Since our establishment, we have been awarded a number of honorary titles, including "Top Ten Star Microfinance Companies (十佳明星小貸公司)" and "Model and Star Microfinance Companies (標兵明星小貸公司)" in Yangzhou City by Yangzhou Local Finance Supervision Administration (揚州市地方金融監督管理局) for many consecutive years, and our various business development have been fully affirmed by local regulatory authorities in recognition of our quality micro and small loan business.

Looking ahead, the Board and our employees will make pioneering and innovative efforts and keep pace with the times to create greater values for our customers, employees and Shareholders.

On behalf of the Board, I would like to extend my gratitude to all Shareholders for their continuous support. I would also like to express my sincere thanks to our employees for their dedication and contributions to the Group.

Best regards,

**Bo Wanlin**

*Chairman*

**Yangzhou Guangling District Taihe Rural Micro-finance Company Limited**

Yangzhou, the PRC, 25 March 2022

## Management Discussion and Analysis

The Group has been committed to providing flexible, convenient and efficient microfinance services to Yangzhou small and medium-sized enterprises (中小企業), microenterprises (小微企業), individual industrial and commercial households (個體工商戶), and three rural enterprises (三農企業), providing customers with efficient and fast short-term business financing needs.

### BUSINESS REVIEW

During the year ended 31 December 2021, the Group continued to pursue business opportunities and strengthen its market position. For the year ended 31 December 2021, the Group recorded interest income of approximately RMB60.5 million, representing a decrease of approximately 19.8% as compared to approximately RMB75.5 million for the year ended 31 December 2020, which was mainly due to the decrease of the effective interest rate; profit after tax of approximately RMB4.6 million, representing a decrease of approximately 87.6% as compared to approximately RMB36.7 million for the year ended 31 December 2020. The decrease in profit was primarily attributable to the impact of the COVID-19 pandemic on the local economy in the second half of 2021, which impacted the real estate and construction industries and resulted in an increase in default of repayment of loans by the Company's customers. As such, the Group strengthened provisions for impairment losses on loans according to economic trends and enhanced the write-off of non-performing loans. As at 31 December 2021, the Group's balance of outstanding loans (before allowance for impairment losses) amounted to approximately RMB837.9 million, representing a decrease of approximately 10.2% as compared to approximately RMB932.7 million as at 31 December 2020, which was mainly due to the Company established an associate and invested RMB80.0 million, and the appropriate downsizing of the Group's lending business during the reporting period. The total assets of the Group as at 31 December 2021 were approximately RMB904.5 million, representing a decrease of approximately 0.4% as compared to approximately RMB907.8 million as at 31 December 2020, and net assets were approximately RMB887.7 million as at 31 December 2021, representing an increase of approximately 0.5%, as compared to approximately RMB883.2 million as at 31 December 2020.

### The number of customers

We have a relatively broad customer base comprising primarily small and medium-sized enterprises ("SMEs"), microenterprises and individual proprietors situated or resided in Yangzhou City. Our customers are engaged in a variety of industries, and a majority of which are also under the classification of AFR (三農) (i.e. agriculture, farmers and rural areas or, as the case may be, individuals or organizations engaged in agricultural businesses and/or rural development activities, and/or residing in rural areas) of the People's Bank of China. Meanwhile, we have launched a digital financial product to promote our inclusive finance business. We grant unsecured loans to qualified customers, with the help of digital technology applied in risk management. We consider the diversity of industries and businesses of our customers, coupled with our relatively small individual loan size, which serve to alleviate our risk of concentration and position us to better withstand periodic business and economic cycles of different industries. For concentration of loans on major clients, please refer to the paragraph headed "MAJOR CUSTOMERS AND SUPPLIERS" under "Report of the Board of Directors" set out in this annual report.

	Year ended 31 December			
	2021		2020	
	No. of Customers	%	No. of Customers	%
<b>Customer by type</b>				
SMEs and micro-enterprises	2	0.4	11	2.0
Individual proprietors	476	99.6	538	98.0
<b>Total</b>	<b>478</b>	<b>100</b>	<b>549</b>	<b>100.0</b>

## Management Discussion and Analysis

### Loan portfolio by size

The following table sets forth our outstanding loans by size as at the dates indicated:

	As at 31 December 2021		As at 31 December 2020	
	RMB'000	%	RMB'000	%
<b>Less than or equal to RMB0.5 million</b>				
– Guaranteed loans	43,285	5.2	35,916	3.9
– Collateralized loans	628	0.1	4,051	0.4
– Unsecured loans	1,622	0.2	2,219	0.2
	45,535	5.5	42,186	4.5
<b>Over RMB0.5 million but less than or equal to RMB1 million</b>				
– Guaranteed loans	78,472	9.4	88,725	9.5
– Collateralized loans	1,000	0.1	3,342	0.4
	79,472	9.5	92,067	9.9
<b>Over RMB1 million but less than or equal to RMB2 million</b>				
– Guaranteed loans	308,195	36.8	367,560	39.4
– Collateralized loans	3,056	0.4	10,252	1.1
	311,251	37.2	377,812	40.5
<b>Over RMB2 million but less than or equal to RMB3 million</b>				
– Guaranteed loans	401,635	47.8	402,543	43.2
– Collateralized loans	—	—	18,071	1.9
	401,635	47.8	420,614	45.1
<b>Total</b>	837,893	100.0	932,679	100.0

## Management Discussion and Analysis

### Loan portfolio by security

We accept (i) loans backed by guarantees, (ii) loans secured by collaterals, (iii) loans backed and secured by both guarantees and collaterals or (iv) unsecured loans. The following table sets forth the balance of our outstanding loans by security as at the dates indicated:

	As at 31 December 2021		As at 31 December 2020	
	RMB'000	%	RMB'000	%
Guaranteed loans	831,587	99.2	894,744	96.0
Collateralized loans	4,684	0.6	35,716	3.8
included: Guaranteed and collateralized loans	—	—	34,628	3.7
Unsecured loans	1,622	0.2	2,219	0.2
<b>Total</b>	<b>837,893</b>	<b>100.0</b>	<b>932,679</b>	<b>100.0</b>

The following table sets forth details of the number of loans granted for the periods indicated by security

	As at 31 December 2021	As at 31 December 2020
Guaranteed loans	494	555
Collateralized loans	9	18
included: Guaranteed and collateralized loans	8	17
Unsecured loans	164	60
<b>Total</b>	<b>667</b>	<b>633</b>

## Management Discussion and Analysis

### Asset quality

With the aim of addressing credit risks that the Group is exposed to, we have put in place a standardized and centralized risk management system, and implemented the “separation of due diligence and approval (審貸分離)” policy.

We adopt a loan classification approach to manage our loan portfolio. We categorize our loans by reference to the “Five-Tier Principle” set forth in the Guideline for Loan Credit Risk Classification (貸款風險分類指引) issued by the China Banking and Insurance Regulatory Commission. According to the “Five-Tier Principle”, our loans are categorized as “normal”, “special-mention”, “substandard”, “doubtful” or “loss” according to their levels of risk. The following table sets forth our outstanding loans by the “Five-Tier Principle” category as at the dates indicated:

#### PROVISIONING POLICIES AND ASSET QUALITY:

	As at 31 December 2021		As at 31 December 2020	
	RMB'000	%	RMB'000	%
Normal	792,502	94.5	905,291	97.1
Special-Mention	12,477	1.5	—	—
Substandard	28,413	3.4	1,102	0.1
Doubtful	2,251	0.3	20,245	2.2
Loss	2,250	0.3	6,041	0.6
<b>Total</b>	<b>837,893</b>	<b>100.0</b>	<b>932,679</b>	<b>100.0</b>

Certain borrowers of the Company defaulted in repayment of loans due to the impact of the COVID-19 pandemic on local economy in the second half of 2021. For details, please refer to the paragraph headed “Details of the relevant loan of which the impairments were recorded” in this section.

The following table sets forth our loan quality analysis as at the dates indicated:

	As at 31 December 2021	As at 31 December 2020
Impaired loan ratio <sup>(1)</sup>	3.9%	2.9%
Balance of impaired loans (RMB'000)	32,914	27,388
Total amount of loans receivable (RMB'000)	837,893	932,679
Allowance coverage ratio <sup>(2)</sup>	105.9%	143.7%
Allowance for impairment losses (RMB'000) <sup>(3)</sup>	34,848	39,346
Balance of impaired loans (RMB'000)	32,914	27,388
Provisions for impairment losses ratio <sup>(4)</sup>	4.2%	4.2%
Balance of overdue loans (RMB'000)	45,191	27,388
Total amount of loans receivable (RMB'000)	837,893	932,679
Overdue loan ratio <sup>(5)</sup>	5.4%	2.9%

## Management Discussion and Analysis

Notes:

- (1) Represents the balance of impaired loans divided by the total amount of loans receivable.
- (2) Represents the allowance for impairment losses on all loans divided by the balance of impaired loans. The allowance for impairment losses on all loans includes provisions provided for loans which are assessed collectively and provisions provided for impaired loans which are assessed individually. Allowance coverage ratio indicates the level of allowance we set aside to cover the probable loss in our loan portfolio.
- (3) Allowance for impairment losses reflects our management's estimate of the probable loss in our loan portfolio.
- (4) Represents the allowance for impairment losses divided by the total amount of loans receivable. Provisions for impairment losses ratio measures the cumulative level of provisions.
- (5) Represents the overdue loans, being loans with whole or part of the principal and/or interest that was overdue for one day or more, divided by the total amount of loans receivable.

Contingent Liabilities not provided for in the financial statements are as follows:

	As at 31 December 2021	As at 31 December 2020
Financial Guarantee Contracts (RMB)	41,600,000	64,050,000

### FINANCIAL REVIEW

#### Interest income

Our interest income decreased by approximately 19.8% from approximately RMB75.5 million for the year ended 31 December 2020 to approximately RMB 60.5 million for the year ended 31 December 2021. The Group's interest income on loans receivable is mainly affected by two factors: (i) the daily balance of loans receivable; and (ii) the effective interest rates that the Group charges its customers. The Group's average daily balance of loans receivable decreased from approximately RMB912.8 million for the year ended 31 December 2020 to approximately RMB832.4 million for the for the year ended 31 December 2021, which was mainly attributable to the fact that the Company established an associate and invested RMB80.0 million and the appropriate downsizing of the Group's lending business during the reporting period. Meanwhile, the effective interest rate decreased from 8.27% for the year ended 31 December 2020 to 7.27% for the year ended 31 December 2021.

#### Interest expense

Our interest expense was RMB240,479 and RMB200,093 for the year ended 31 December 2020 and 2021, respectively. Interest expense for the year ended 31 December 2020 and 2021 was accrued from an instalment loan arrangement in respect of purchasing motor vehicles at the end of 2018, and recognised lease liabilities relating to the lease contracts in respect of our office.

#### Accrual of provision for impairment losses

We had accrual of provision for impairment losses of approximately RMB15.4 million and RMB46.9 million for the years ended 31 December 2020 and 2021, respectively. Such increase in accrual of provision for impairment losses was mainly due to certain customers who experienced financial difficulties because of the on-going COVID-19 situation and market conditions, and hence defaulted in repayment of our loans.

## Management Discussion and Analysis

### Details of the relevant loans of which impairments were recorded

The Company recorded impairments losses on loans receivable of RMB46.95 million in 2021, the breakdown of the loan portfolio as at 31 December 2021 and impairments losses for the year ended 31 December 2021 is as follows:

Item	Gross loan amount (RMB million)	Allowance for impairment losses at the beginning of 2021 (RMB million)	Net charge of the impairment in 2021 (RMB million)	Net carrying amount of loans (RMB million)
Newly impaired loans incurred in 2021	60.59	1.54	40.72	18.33
Loans impaired before 2021 <sup>(Note 1)</sup>	23.08	18.06	4.82	0.20
Loans were not impaired <sup>(Note 2)</sup>	804.97	19.05	1.41	784.51
<b>Total</b>	<b>888.64</b>	<b>38.65</b>	<b>46.95</b>	<b>803.04</b>

Notes:

1. For loans impaired before 2021, the Company recognized impairment losses of RMB4.82 million in 2021 based on the latest status.
2. The Company collectively assessed the loans which were not impaired in 2020 and recorded impairment losses amounted to RMB1.41 million for such loans in the year ended 31 December 2021.
3. The definition of credit-impaired financial asset and the factors when the Company assesses whether a credit impairment of a debtor has occurred are set out in note 34 to the consolidated financial statements.

## Management Discussion and Analysis

As illustrated above, the impairment loss on loans receivable recognized for the year ended 31 December 2021 is primarily attributable to newly impaired loans incurred in 2021, the details of which are as follows:

Loan (collectively, the 'Loans')	Borrower <sup>(Note 1)</sup> (collectively, "Borrowers")	Date of agreement for Loan	Net charge of the		Interest rate (%)	Type of security	The first overdue date	Overdue days
			Gross loan amount	impairment in 2021				
			<i>(RMB million)</i>	<i>(RMB million)</i>				
<i>Type 1 (to be further illustrated below)</i>								
1	Individual 1	6-Jul-2020	2.90	2.83	9.60%	Guaranteed	6-Jul-2021	178
2a	Individual 2	24-Mar-2020	1.50	1.47	12.00%	Guaranteed	24-Mar-2021	282
2b	Individual 2	24-Feb-2020	1.40	1.37	12.00%	Guaranteed	24-Feb-2021	310
3	Individual 3	30-Oct-2020	2.80	0.48	9.00%	Guaranteed	21-Aug-2021	132
4a	Individual 4	21-Feb-2020	1.60	1.56	4.80%	Guaranteed	21-Feb-2021	313
4b	Individual 4	12-Jun-2020	1.00	0.98	4.80%	Guaranteed	12-Jun-2021	202
5	Individual 5	24-Feb-2020	2.50	2.44	9.00%	Guaranteed	24-Feb-2021	310
6	Individual 6	19-Oct-2020	2.50	0.67	8.40%	Guaranteed	21-Aug-2021	132
7	Individual 7	20-Nov-2020	2.41	1.63	8.40%	Guaranteed	21-Oct-2021	71
8	Individual 8	28-May-2020	2.40	2.35	9.00%	Guaranteed	28-May-2021	217
9	Individual 9	21-Sep-2020	2.20	0.48	8.40%	Guaranteed	21-Aug-2021	132
10	Individual 10	8-Dec-2020	2.02	1.03	6.60%	Guaranteed	21-Oct-2021	71
11	Individual 11	31-Jan-2020	2.00	1.96	9.00%	Guaranteed	31-Jan-2021	334
12	Individual 12	28-May-2020	2.00	1.96	9.00%	Guaranteed	28-May-2021	217
13	Individual 13	26-Feb-2021	1.80	0.70	10.08%	Collateralized	25-Jul-2021	159
14	Individual 14	3-Sep-2020	1.50	0.54	6.60%	Guaranteed	21-Aug-2021	132
15	Individual 15	24-Sep-2020	1.00	0.76	6.00%	Guaranteed	21-Aug-2021	132
16	Enterprise 1	27-Jul-2020	0.40	0.00	16.20%	Guaranteed	27-Jul-2021	157
<b>Subtotal</b>			<b>33.93</b>	<b>23.20</b>				

## Management Discussion and Analysis

Loan (collectively, the 'Loans')	Borrower <sup>(Note 1)</sup> (collectively, the 'Borrowers')	Date of agreement for loan	Gross loan amount	Net charge of the impairment in 2021	Interest rate	Type of security	The first overdue date	Overdue days
			<i>(RMB million)</i>	<i>(RMB million)</i>	(%)			
<i>Type 2 (to be further illustrated below)</i>								
17	Individual 16	4-Nov-2020	2.41	1.13	9.00%	Guaranteed	21-Oct-2021	71
18	Individual 17	9-Dec-2020	2.02	0.89	6.60%	Guaranteed	21-Oct-2021	71
19	Individual 18	31-Jan-2020	2.00	1.96	9.00%	Guaranteed	31-Jan-2021	334
20a	Individual 19	3-Aug-2020	1.00	0.25	12.00%	Collateralized	3-Aug-2021	150
20b	Individual 19	3-Mar-2021	0.20	0.03	12.00%	Collateralized	Not Applicable <i>(Note 2)</i>	Not Applicable <i>(Note 2)</i>
21	Individual 20	21-Feb-2020	0.80	0.78	13.00%	Guaranteed	21-Feb-2021	313
22	Individual 21	23-Sep-2020	0.34	0.01	15.40%	Guaranteed	23-Sep-2021	99
23	Individual 22	7-Dec-2020	0.25	0.24	8.10%	Guaranteed	7-Dec-2021	24
<b>Subtotal</b>			<b>9.02</b>	<b>5.29</b>				
<i>Type 3 (to be further illustrated below)</i>								
24	Individual 23	3-Jul-2020	2.90	2.83	8.40%	Guaranteed	3-Jul-2021	181
25	Individual 24	6-Aug-2020	2.60	2.54	8.40%	Guaranteed	6-Aug-2021	147
26	Individual 25	5-Aug-2020	2.50	2.44	9.60%	Guaranteed	5-Aug-2021	148
27	Individual 26	21-Oct-2020	2.50	0.69	8.40%	Guaranteed	21-Aug-2021	132
28	Individual 27	14-Oct-2020	2.30	0.70	6.60%	Guaranteed	21-Aug-2021	132
29	Individual 28	1-Sep-2020	2.00	1.96	8.40%	Guaranteed	21-Aug-2021	132
30	Individual 29	21-Sep-2020	1.80	0.80	7.80%	Guaranteed	21-Aug-2021	132
31	Individual 30	15-May-2020	0.50	0.04	17.40%	Guaranteed	15-May-2021	230
32	Individual 31	30-Dec-2020	0.30	0.18	15.40%	Guaranteed	21-Feb-2021	313
33	Individual 32	27-Aug-2020	0.11	0.00	15.40%	Guaranteed	27-Aug-2021	126
34a	Individual 33	7-Nov-2020	0.03	0.02	15.12%	Unsecured	7-Jun-2021	207
34b	Individual 33	20-Apr-2021	0.01	0.00	15.12%	Unsecured	7-Jun-2021	207
34c	Individual 33	19-May-2021	0.01	0.00	15.12%	Unsecured	7-Jun-2021	207
35	Individual 34	6-Nov-2020	0.03	0.02	15.21%	Unsecured	6-Jun-2021	208
36	Individual 35	9-Nov-2020	0.02	0.02	15.03%	Unsecured	9-Jul-2021	175
37a	Individual 36	11-Nov-2020	0.01	0.00	15.12%	Unsecured	11-Apr-2021	264
37b	Individual 36	11-Feb-2021	0.01	0.00	15.12%	Unsecured	11-Jul-2021	173
37c	Individual 36	11-Feb-2021	0.01	0.00	15.12%	Unsecured	11-May-2021	234
<b>Subtotal</b>			<b>17.64</b>	<b>12.23</b>				
<b>Total</b>			<b>60.59</b>	<b>40.72</b>				

## Management Discussion and Analysis

### Notes:

1. As the borrower's name involves personal privacy or business secrets, the Company has made a confidential treatment. All the borrowers are not related to each other.
2. This loan was not matured as at 31 December 2021, and the borrower was repaying the monthly interests. However, the Company considers this loan to be impaired, as another loan of this borrower was past due for more than 90 days.

The following are the main reasons attributable to the impairment of the newly impaired loans incurred in 2021 as illustrated above.

### Type 1

16 borrowers were engaged in building renovation, trading of construction materials, infrastructure projects and construction of private and public housing. The gross amount of the relevant loans was RMB33.93 million as at 31 December 2021. These borrowers provide services to customers in the real estate and construction industries. Their financial position and operations were relatively stable prior to July 2021, as the COVID-19 pandemic was under control in Yangzhou City before July 2021. However, there were massive outbreaks of the COVID-19 pandemic in Yangzhou City since July 2021, which significantly impacted the local economic activities. In particular, the outbreak was more critical in Yangzhou City in the summer of 2021, where strict local control measures were implemented, such as measures to lock down communities and stop individual proprietors from operating, which greatly affected local economic activities. Meanwhile, the macro-control policies for local real estate market were also strengthened in the second half of 2021. All these factors resulted in a downtrend in both the volume and price of local real estate market since the second half of 2021, which significantly impacted the 16 borrowers' business performances in real estate and construction industries. These borrowers therefore had difficulties in recovering their operating cash flows and were unable to repay the Company's loans.

### Type 2

Seven borrowers were engaged in consumer retail business. The gross amount of the relevant loans was RMB9.02 million as at 31 December 2021. Mainly due to the massive outbreak of the COVID-19 pandemic in Yangzhou City since July 2021 as mentioned above, these seven borrowers experienced operation difficulties and as a result they failed to repay the Company's loans.

### Type 3

14 borrowers, with gross amount of relevant loans amounting to RMB17.64 million as at 31 December 2021, defaulted in repayment of the Company's loans as a result as other factors, such as critical accidents like fires at the borrowers' operation location or default on debt which guaranteed by the borrowers in 2021, which resulted in the borrowers' failure to settle the outstanding loan balances of the Company.

## Management Discussion and Analysis

When entering into the relevant loan and repayment agreements, the Company strictly implemented a standardized process, which is set out on the page 34 of this annual report. The Company tracks loan status by monitoring loan repayments and routine post-loan inspection, and first became aware of the factors, events and circumstances leading to the impairments when the event of loan defaults occurred or post-loan inspection indicates any abnormality.

In summary, the main reasons leading to the impairment, such as unexpected massive outbreaks of the COVID-19 pandemic in Yangzhou City and the implementation of strengthened macro-control policies for local real estate market, mainly occurred in the second half of 2021, and hence were not anticipated by the Company at the time of entering into the relevant loan and repayment agreements as almost all of the Company's newly impaired loans in 2021 were granted in 2020.

Based on the analysis of the financial position of the borrowers, the method and priority of the recourse, credit enhancements (e.g., collaterals and financial guarantees), etc., the management assessed the credit risk of the borrowers and the expected credit losses, and considered that the above assessment of the provision ratio is reasonable. Among the above loans, the total amount of collateralized loans is RMB3.00 million, while the related collateral is valued at RMB3.57 million. The Company has taken into account the expected net realizable value of these collateral in measurement of expected credit loss.

The Board also concluded that the impairment charges on impaired loans were fair and reasonable after considering supportable information that is available without undue cost or effort as at 31 December 2021 mainly by reviewing:

- the method of determining the amount of the impairments;
- the results of the loan five categories;
- the ratios of loan quality including provisions for impairment losses ratio and allowance coverage ratio; and
- the analysis of changes in the local market environment and the main reasons for borrowers' defaults, as well as their ability to repay.

Except for the above-mentioned impaired loans, there were RMB12.48 million loans overdue less than 90 days but were not impaired as at 31 December 2021. The detailed actions taken by the Company to ensure the recoverability of these overdue loans are as follows:

In general, our customers are required to pay monthly interest on our loans and repay the principal amount of the loans upon maturity of the loan, and occasionally we may accept monthly instalments of part principal plus interest. To ensure timely payment, our account managers generally remind our customers of their payment obligations before the relevant due dates. We consider any loan with whole or part of principal and/or interest that was overdue for one day or more to be overdue.

When a loan principal is overdue; or any loan interest is not repaid by the relevant month-end, our account manager will pay an on-site visit to remind the customer of the overdue situation, and assess the conditions and reasons for such overdue, make a preliminary assessment on the risk level, mitigation measures and the possibility of recovery of the loan, and report to the head of customer service department, the head of risk management department and our general manager.

## Management Discussion and Analysis

If the overdue situation is not rectified after the visit and overdue continues for more than 20 days, our account manager together with a representative of our legal department will conduct another on-site visit to remind the default customer of his/her payment obligation.

If the overdue situation remains unresolved and continues for more than 45 days, we may arrange an on-site meeting with the default customer to negotiate a repayment plan for the overdue amount. If the customer persists in failing to follow through with the repayment plan, our risk management department and legal department will initiate the following steps to seek collection:

- having recourse to the guarantor: if repayment of a loan is guaranteed by a guarantor, we will demand the guarantor to repay the principal of the loan and any interests accrued thereon; or
- foreclosure of the collateral: for a loan secured by collateral, we will initiate foreclosure proceeding by applying to court to attach and preserve the collateral. Upon obtaining a favorable judgment, we will file an enforcement application with the court to realize the value of the collateral through auction or sale, and subsequently apply all or part of such value toward repayment of the loan.

Through the efforts taken, as at 19 April 2022, the Company has subsequently recovered a portion of the overdue loans amounting to RMB 9.56 million.

### Administrative expenses

Our administrative expenses decreased by approximately 14.3% from approximately RMB13.3 million for the year ended 31 December 2020 to approximately RMB11.4 million for the year ended 31 December 2021, primarily due to the fact that the Group significantly reduced its entertainment expenses because of the COVID-19 situation.

### Income tax expense

Income tax expense decreased by approximately 85.4% from approximately RMB12.6 million for the year ended 31 December 2020 to approximately RMB1.8 million for the year ended 31 December 2021. Such decrease was mainly caused by the decrease in profit before tax.

### Profit after tax and total comprehensive income

As a result of the foregoing and in particular the decrease of the interest income, our profit after tax and total comprehensive income decreased by approximately 87.6% from approximately RMB36.7 million for the year ended 31 December 2020 to approximately RMB4.6 million for the year ended 31 December 2021.

### Significant investments

On 27 January 2021, the Company entered into an associate agreement with Yangzhou Tuyun IoT Technology Co., Ltd.\* (揚州圖雲物聯科技有限公司) for the formation of an associate, namely "Jiangsu Interactive Photosensitive IoT Technology Co., Ltd.\* (江蘇互動感光物聯科技有限公司)" (the "**JV Co.**"). The Company (as passive investor) contributed RMB80 million to the JV Co., representing 40% of the equity interests of the JV Co., in March 2021. The capital contribution by the Company to the JV Co. was funded by the internal resources of the Company. The JV Co. is primarily engaged in the development of technologies, products and solutions in relation to artificial intelligence ("**AI**") and internet of things ("**IoT**") and promoting the applicability of such technologies, products and solutions. For further details, please refer to the announcement of the Company dated 27 January 2021 and note 16 to the consolidated financial statements of this annual report.

## Management Discussion and Analysis

The Company measured this investment using equity method, and the carrying amount of the investment amounted to RMB 79,916,885 as at 31 December 2021, representing approximately 8.84% of the total assets of the Group as at 31 December 2021.

Save as disclosed above, the Group has no significant investment during the year ended 31 December 2021 and up to the date of this annual report.

### Material acquisitions or disposals of subsidiaries, affiliated companies and joint ventures

On 12 October 2021, the Group acquired 55% equity interest in Hainan Jialan Information Technology Co., Ltd. (海南迦藍信息技術有限責任公司), a company primarily engaging in the business of providing internet and related services. The consideration for the acquisition was RMB2,000,000, which was settled in cash in November 2021.

### Future plans for material investments or capital assets and expected sources of funding

Other than the abovementioned committed capital which the Company has not yet fully paid up to its subsidiaries, the Group has no specific future plans for material investments or capital assets during the year ended 31 December 2021 and up to the date of this annual report.

### Foreign exchange risk

The Group operates principally in the People's Republic of China (the "PRC") with only limited exposure to foreign exchange rate risk arising primarily from insignificant bank deposits denominated in Hong Kong dollars ("HKD"). The management will continue to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. As at 31 December 2021, the Group did not have any outstanding hedge instruments.

### Liquidity, financial resources and capital structure

As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB5.6 million (31 December 2020: approximately RMB0.8 million). The Group has paid off the instalment loan as at 31 December 2021 (31 December 2020: RMB127,296 with the effective interest rate of 5.3%). The Group's gearing ratio, representing the ratio of total net debt divided by capital and net debt, was nil as at 31 December 2021 (31 December 2020: 0.15%).

During the year ended 31 December 2021, the Group did not use any financial instruments for hedging purposes.

## Management Discussion and Analysis

### Treasury policy

The Company adopts a prudent financial management strategy in implementing the treasury policy and a sound liquidity position was maintained throughout the year. The Group assesses its customers' credit and financial positions on an ongoing basis so as to minimize the credit risks. In order to control the liquidity risks, the Company would closely monitor the liquidity position of the Group to ensure its assets, liabilities and its liquidity structure would satisfy the funding needs from time to time.

### Indebtedness and charges on assets

The Group has paid off the instalment loan during the year ended 31 December 2021. Meanwhile, the balance of lease liability was approximately RMB2.6 million as at 31 December 2021.

### Contingent liabilities

Contingent liabilities not provided for in the financial statements were as follows:

	As at 31 December 2021	As at 31 December 2020
Financial guarantee contracts (RMB)	41,600,000	64,050,000

The Group provides financial guarantee services on an occasional basis.

### Off-balance sheet arrangements

The Group did not have any off-balance sheet arrangements during the year ended 31 December 2021 and up to the date of this annual report.

### DIVIDEND POLICY

The Board has adopted a dividend policy that, in recommending or declaring dividends, the Group shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value.

The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the articles of the association of the Company (the "**Articles of Association**") and all applicable laws and regulations and the factors set out below.

The Company has adopted a dividend policy pursuant to which it may declare and pay annual dividends to Shareholders of not less than 30% of the profit available for distribution, subject to, in each case, the Board's decision after a comprehensive review of the Group's financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of Shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant, and there is no assurance that dividends may be declared or paid in any given amount for any given financial year.

Depending on the financial conditions of the Group and the conditions and factors of the Company as set out above, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that the Board may deem appropriate. Any proposed dividend for a financial year will be subject to Shareholders' approval. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles of Association.

## Management Discussion and Analysis

### FINAL DIVIDEND

After a comprehensive review of the Group's financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of Shareholders, the Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

During the year ended 31 December 2021 and up to the date of this annual report, there is no arrangement under which any Shareholder has waived or agreed to waive any dividend.

### MATERIAL LITIGATION AND ARBITRATION

During the year ended 31 December 2021, the Group was not involved in any material litigation or arbitration.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had 20 full-time employees (31 December 2020: 24 full-time employees). The quality of our employees is the most important factor in maintaining a sustainable development and growth of the Group and to improve to profitability of the Group. We offer a base salary with bonuses based on our employees' performance, as well as benefits and allowances to all of our employees as an incentive. Total employees remuneration of the Group for the year ended 31 December 2021 was approximately RMB3.9 million (for the year ended 31 December 2020: approximately RMB3.9 million).

### ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. The Company has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group understands that a better future depends on everyone's participation and contribution. The Company has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Group maintains strong relationships with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

For further details of the Group's environmental performance and relationship with its employees, suppliers and customers, please refer to the Environmental, Social and Governance Report set out in this annual report.

## Management Discussion and Analysis

### CORPORATE DEVELOPMENT STRATEGIES AND OUTLOOK

The objective of the Company is to become a leading regional microfinance company focusing on meeting the interim business financing needs of SMEs, microenterprises and individual proprietors.

Although the COVID-19 pandemic continues to affect the global market and poses a lot of uncertainties, the effective pandemic control measures adopted by the PRC Government, such as the targeted lockdowns, strategic reopening policies, leveraging digital technology, COVID-19 vaccines as well as fiscal support has stimulated economy and put epidemic under control. With the economic recovery, it is expected that our customers will have a lower risk of default in repayment of loans. The COVID-19 pandemic has accelerated the digitalization process of the credit industry. We will continue to monitor and improve our digitalized and intelligent retail credit platform to satisfy various credit needs of our customers, and to continuously provide convenient and intelligent credit solutions to our customers.

During the reporting year, the JV Co. was formed. The Board believes that the Group would be benefitted from the joint venture partner's technical know-how for developing AI and IoT technologies, products and solutions as well as its business connections. In light of the arrival of the 5G era, which allows for higher connection speed and with much lower latency, it is expected that the "internet plus" business model will gain more and more importance and become a revolutionary driving force leading to transformation of different industries. It is expected that the convergence of the emerging 5G networks with AI and IoT shall enable a wide application of AI and IoT in various industries, and the Board believes this will bring huge market potential. The Group will continue to explore opportunities to expand its business portfolio and diversify its revenue sources with an aim to bring valuable returns to its Shareholders.

As announced by the Company on 15 July 2021, the Controlling Shareholder Group (as defined in the announcement of the Company dated 15 July 2021) agreed to transfer an aggregate of 108,000,000 domestic shares of the Company to three independent Shareholders. This reflects that the new Shareholders are optimistic about the Group's future development, which may bring new business development resources and market influence to the Group, further strengthening the Group's soft power and competitiveness and driving the Group's development. This also shows their confidence in the business, operation and continued growth of the Group and the microfinance industry. The Group will continue to seek to diversify our shareholder base so as to strengthen our competitiveness.

Looking ahead, the Board and our employees will make pioneering and innovative efforts and keep pace with the times to create greater values for our customers, Shareholders and investors.

## Biographical Details of Directors, Supervisors and Senior Management

### DIRECTORS

#### Executive Directors

**Mr. Bo Wanlin (柏萬林)**, aged 73, is the chairman of the Board and executive Director. He is primarily responsible for corporate strategic planning and overall business development and management of the Company. He is also the chairman of the nomination committee. Mr. Bo has been the chairman and executive Director since the incorporation of the Company in November 2008. Mr. Bo is the father of Mr. Bo Nianbin and Ms. Bai Li.

From February 1973 to December 1990, Mr. Bo was the director and the secretary of branch of the Party of Yangzhou Zhenxing Garment Factory (揚州市振興服裝廠) (a garment manufacturing and sales company), and was fully responsible for company's operations and management as well as the Party and political works. From January 1991 to July 1996, Mr. Bo was the chairman and general manager of Jiangsu Qinman Group Limited (江蘇琴曼集團有限公司), and was fully responsible for company's operations and management. From August 1996 to November 2014, Mr. Bo Wanlin was the chairman of Jiangsu Botai Group Co., Ltd. (江蘇柏泰集團有限公司) ("**Botai Group**") (a garment manufacturing, import and export, sales, and investment management company), formulating the company's operational development strategy and planning, overseeing the operations and management of the company. From November 2009 to September 2014, Mr. Bo was a director of Jiangsu Hanjiang Mintai Rural Bank Co., Ltd. (江蘇邗江民泰村鎮銀行股份有限公司), involved in the formulation of the company's operational development strategy and planning. From October 2013 to January 2015, Mr. Bo served as a supervisor of Yangzhou Guangling Zhongcheng Rural Bank Co., Ltd. (揚州廣陵中城村鎮銀行股份有限公司) to supervise the performance of the board of directors of the company.

Mr. Bo once served as the chairman and legal representative of Yangzhou Weiyi Garment Manufactory Co., Ltd. (揚州唯一製衣有限公司), a company incorporated in the PRC. Its business scope includes manufactory and sale of luxury garment. Since this company no longer carried on business and did not conduct annual inspection, the business license of this company was revoked on 16 April 2008. Mr. Bo once served as the supervisor of Jiangsu Kaichang Garment Co., Ltd. (江蘇凱昌服裝有限公司), a company incorporated in the PRC. Its business scope includes manufacture and sale of garment. Since this company no longer carried on business and did not conduct annual inspection, the business license of this company was revoked on 2 December 2010. Mr. Bo confirmed that there was no wrongful act on his part leading to the revocation of business licenses of the aforesaid companies and he is not aware of any actual or potential claim that has been or will be made against him as a result of such revocation of business licenses.

Mr. Bo completed his secondary school education in Jiangsu Province Hanjiang Middle School (江蘇省邗江中學) in the PRC in 1968.

**Ms. Bai Li (柏莉)**, aged 46, is the executive Director, chief executive and the general manager of the Company. She is primarily responsible for formulating and implementing the Company's corporate strategies, overseeing the Company's overall business development and participating in the day-to-day management of the Company's business operations. Ms. Bai was appointed as the executive Director on 23 August 2012. She joined the Company on 1 July 2010 as a deputy general manager and was subsequently promoted as a general manager and chief executive on 6 May 2013 responsible for overall management and operations. Ms. Bai is the daughter of Mr. Bo Wanlin and the sister of Mr. Bo Nianbin.

From August 1998 to March 2010, Ms. Bai was a customer manager of the Bank of Communications Co., Ltd. Yangzhou Branch (交通銀行股份有限公司揚州分行) (stock code: 601328.SH, 3328.HK), and was responsible for loan investigation and issue. From March 2010 to August 2012, Ms. Bai was a supervisor of Botai Group, and was responsible for supervising the performance of the board of directors of the company.

Ms. Bai graduated from Yangzhou University (揚州大學) in the PRC in July 1997 majoring in international business.

## Biographical Details of Directors, Supervisors and Senior Management

**Ms. Zhou Yinqing (周吟青)**, aged 43, is the executive Director, the deputy general manager and secretary to the Board of the Company. She is primarily responsible for overseeing the financial management of the Company. Ms. Zhou was appointed as the executive Director on 6 May 2013 and as a deputy general manager on 10 March 2014. She was also appointed as the secretary to the Board of the Company on 28 June 2021.

From March 1996 to March 2014, Ms. Zhou worked in the Botai Group, where she last served as its financial controller and was responsible for the financial management of Botai Group.

Ms. Zhou graduated from Central Radio and Television University (中央廣播電視大學, currently known as The Open University of China (國家開放大學)) in the PRC in July 2007, majoring in financial accounting.

### Non-executive Directors

**Mr. Bo Nianbin (柏年斌)**, aged 47, is the non-executive Director. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. Mr. Bo has been the non-executive Director since the incorporation of the Company in November 2008. Mr. Bo is the son of Mr. Bo Wanlin and the brother of Ms. Bai Li.

Since April 1995, Mr. Bo has served as a director of Botai Group. He was responsible for formulating the company's operational development strategy and planning. From July 2001 to March 2019, Mr. Bo served as a director and general manager of Yangzhou Bo Tai Garment Company Limited (揚州柏泰製衣有限公司), a company that manufactures and sells garments, and was fully responsible for the company's operation and management. From November 2004 to the present day, Mr. Bo served as a supervisor of Jiangsu Liantai Fashion Shopping Mall Real Estate Co., Ltd. (江蘇聯泰時尚購物廣場置業有限公司), which principally engaged in the business of household building materials, and was responsible for supervising the company. From November 2014 to the present day, Mr. Bo served as a supervisor of Shanghai Boke Fashion Co., Ltd. (上海柏可時裝有限公司), a garment sales company, and was responsible for supervising the performance of the board of directors of the company. Since December 2014, Mr. Bo has been the chairman of Botai Group and is responsible for the formulation of the company's operational development strategy and planning and overseeing the company's operation and management. Since March 2017, Mr. Bo has been the chairman of Jiangsu Botai Company Limited (江蘇柏泰股份有限公司), a company that manufactures and sells garment, and is fully responsible for the operation and management of the company.

Mr. Bo completed his secondary school education in Jiangsu Province Yangzhou Middle School (江蘇省揚州中學) in the PRC in May 1992.

**Mr. Zuo Yuchao (左玉潮)**, aged 50, is a non-executive Director. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. Mr. Zuo joined the Company in 12 November 2008 as a non-executive Director.

From July 1992 to December 1999, Mr. Zuo served as a loan officer of Agricultural Bank of China Limited Yangzhou Guangling Branch (中國農業銀行揚州廣陵支行) (stock code: 601288.SH and 1288.HK) for loan review. Since December 1999, Mr. Zuo has been the general manager (last position) of Botai Group and is fully responsible for the company's operation and management. From March 2017 to the present, Mr. Zuo has been serving as chairperson of the supervisory committee of board in Jiangsu Botai Company Limited (江蘇柏泰股份有限公司), a company that manufactures and sales garment, and has been responsible for supervising the performance of the board of directors of the company.

Mr. Zuo graduated from Suzhou Urban Construction and Environmental Protection Institute (蘇州城建環保學院) (currently known as Suzhou University of Science and Technology (蘇州科技學院)) in the PRC in July 1992 majoring in real estate management.

## Biographical Details of Directors, Supervisors and Senior Management

### Independent non-executive Directors

**Mr. Bao Zhenqiang (包振強)**, aged 59, was appointed as an independent non-executive Director on 31 May 2016. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. He is also the chairman of the remuneration committee, and a member of the audit committee and the nomination committee.

Mr. Bao has over 35 years of teaching experience in the field of academic research and teaching. From February 1982 to July 2004, Mr. Bao was a teacher at Yangzhou University (揚州大學) and since July 2004, he has been a professor at Yangzhou University (揚州大學) and has been engaging in academic research and teaching.

Mr. Bao graduated from Yangzhou Industrial College (揚州工業專科學校) (currently known as Yangzhou University (揚州大學)) in the PRC in December 1981 majoring in mechanical manufacturing. He obtained a doctorate degree in electric engineering from the Nanjing University of Aeronautics and Astronautics (南京航空航太大學) in the PRC in December 2003.

**Mr. Wu Xiankun (吳賢坤)**, aged 71, was appointed as an independent non-executive Director on 15 January 2015. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. He is also a member of the remuneration committee, the audit committee and the nomination committee.

Mr. Wu has over 36 years of experience in teaching and administrative management. From February 1981 to July 1983, Mr. Wu was a teacher in Hanjiang County Middle School (邗江縣中學). From September 1983 to September 2000, Mr. Wu was the principal of Guangling Beizhou Middle School (廣陵北洲中學) and engaged in teaching and administrative work. From September 2000 to June 2010, Mr. Wu was the Party secretary of Hanjiang Secondary School (邗江中等專科學校) and was responsible for the party and government work.

Mr. Wu graduated from Yang Zhou Normal College (揚州師範學院) (currently known as Yangzhou University (揚州大學)) in the PRC in January 1981 majoring in Chinese.

**Mr. Chan So Kuen (陳素權)**, aged 42, was appointed as an independent non-executive Director on 15 January 2015. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. He is also the chairman of the audit committee and a member of the remuneration committee.

Mr. Chan has over 15 years of experience in accounting, auditing and finance industry. He is also a member of the Hong Kong Institute of Certified Public Accountants. From June 2001 to October 2003, Mr. Chan was a semi-senior audit clerk of Shinewing (HK) CPA Limited (信永中和(香港)會計師事務所有限公司) (formerly known as Ho and Ho & Company (何錫麟會計師行)). From January 2004 to July 2009, Mr. Chan worked in KPMG where he last served as a manager, and was responsible for the project audit. From November 2009 to October 2012, Mr. Chan was the chief financial officer and the company secretary of China Great Wall Electric Holdings Limited (中國長城電氣控股有限公司), and was responsible for compliance and overall financial and accounting activities. Since February 2014, Mr. Chan has been the chief financial officer of Huazhang Technology Holding Limited (華章科技控股有限公司) (stock code: 1673.HK) and has been responsible for internal control and overseeing financial and accounting activities. Since October 2014, Mr. Chan has served as an independent non-executive director of Link Holdings Limited (華星控股有限公司) (stock code: 8237.HK), providing independent judgment on the issues of strategy, performance, resources and standard of conduct.

Mr. Chan obtained a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University (香港理工大學) in November 2001. He has been a member of the Hong Kong Institute of Certified Public Accountants since April 2005.

## Biographical Details of Directors, Supervisors and Senior Management

### SUPERVISORS

**Ms. Wang Chunhong (王春宏)**, aged 72, was appointed as the chairperson of the supervisory committee and the supervisor of the Company ("**Supervisor**") on 15 January 2015.

From August 1988 to July 2005, Ms. Wang was a teacher of Hanjiang Professional Education Centre (邗江職教中心) where she engaged in teaching and research. Ms. Wang has retired since August 2005 and has not been engaged in any employment until her current position with the Company.

Ms. Wang graduated from the Long Distance Learning School of China Central Party School (中共中央黨校函授學院) in the PRC, through distance learning, in December 1999.

**Ms. Li Guoyan (李國彥)**, aged 42, was appointed as the Supervisor on 15 January 2015. Ms. Li has been an associate professor of the School of Economics and Management of Nanjing Institute of Industry Technology (南京工業職業技術學院), where he has been responsible for research and teaching since July 2018. Prior to that, Ms. Li had been a teacher at Nanjing University of Aeronautics and Astronautics (南京航空航天大學) since July 2005, where he has been responsible for teaching.

Ms. Li graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in the PRC in June 2001 majoring in engineering management. She then obtained a master's degree in technical economics and management and a doctor's degree in management science and engineering from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in the PRC in April 2005 and October 2017, respectively.

**Mr. Zhang Yi (張翼)**, aged 36, was appointed as the employee Supervisor with effect from May 2013. Mr. Zhang obtained a bachelor's degree in international business from Yangzhou University (揚州大學) in the PRC in June 2009.

Mr. Zhang joined our Company in December 2011 as account manager, and currently serves as a department manager of the customer service department in our Company and he is responsible for preliminary review of loan applications.

From August 2010 to November 2011, Mr. Zhang was the product R&D personnel in Jiangsu Ruilian Electronic Technology Co., Ltd. (江蘇瑞聯電子科技有限公司) where he engaged in new product development.

### SENIOR MANAGEMENT

**Ms. Bai Li (柏莉)**, aged 46, is the executive Director, chief executive and the general manager of the Company. Please refer to her biography above for details.

**Ms. Zhou Yinqing (周吟青)**, aged 43, is the executive Director, the deputy general manager and secretary to the Board of the Company. Please refer to her biography above for details.

## Corporate Governance Report

The Board hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2021.

### CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the important roles of its Board in providing effective leadership and direction to the Company's business, and ensuring transparency and accountability of the Company's operations. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Company's business.

The Company has applied and complied with the principles and code provisions as previously set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the year ended 31 December 2021.

On 1 January 2022, the amendments to the CG Code (the "**New CG Code**") came into effect and the requirements under the New CG code will apply to corporate governance reports for financial year commencing on or after 1 January 2022. The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of the Shareholders and investors.

### Corporate Governance and Environmental, Social and Governance ("**ESG**")

Corporate governance provides the framework within which the Board forms its decisions and build its businesses with the aim to creating long-term sustainable growth for Shareholders and delivering long-term values to all stakeholders. An effective corporate governance structure allows the Group to have a better understanding of, evaluate and manage, risks and opportunities (including environmental and social risks and opportunities). The Board is responsible for effective governance and overseeing ESG matters, as well as assessing and managing material environmental and social risks. For details of the ESG matters during the year ended 31 December 2021, please refer to the section headed "Environmental, Social and Governance Report" set out on pages 56 to 69 of this annual report.

### Compliance with the Required Standard of Dealings in Securities

The Company has adopted a code of conduct regarding securities transactions by Directors and Supervisors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all the Directors and Supervisors, each of them has confirmed that he/she has complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors and Supervisors adopted by the Company throughout the year under review. The Company will continue to ensure compliance with the code of conduct.

## A. DIRECTORS

### A.1 Board of Directors

The Company is governed by the Board which is responsible for leadership and control of, and promoting the success of the Company. This is achieved by setting up corporate and strategic objectives and policies, and the monitoring and evaluations of operating activities and financial performance of the Group.

All the Directors carry out their duties in good faith and are in compliance with applicable laws and regulations, take decisions objectively and act in the interests of the Company and its Shareholders at all times.

## Corporate Governance Report

Formal service agreements/letters of appointment have been entered into with the executive Directors, non-executive Directors and the independent non-executive Directors respectively setting out the key terms and conditions of their respective appointments. The term of office of each Director is three years.

The insurance cover in respect of legal action against the Company's Directors and senior officers is covered by the existing Directors & Officers Liability Insurance Policy of the Company.

Save as disclosed in the biographies of Directors, Supervisors and Senior Management, which are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report, to the best knowledge of the Directors, there is no other personal relationship (including financial, business, family or other material/relevant relationship) with any other Directors, the Chairman of the Board and the chief executive of the Company.

### A.2 Board composition

The Board currently comprises of the following Directors:

#### Executive Directors

Mr. Bo Wanlin (*Chairman*)

Ms. Bai Li

Ms. Zhou Yinqing

#### Non-executive Directors

Mr. Bo Nianbin

Mr. Zuo Yuchao

#### Independent non-executive Directors

Mr. Bao Zhenqiang

Mr. Wu Xiankun

Mr. Chan So Kuen

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report. The Company considers that the composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive corporate and strategic planning experiences that can contribute to the business of the Company.

During the year ended 31 December 2021, the Company has complied with Rules 3.10(1) and (2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive directors representing more than one-third of the Board and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. All independent non-executive Directors also meet the guidelines for assessment of their independence pursuant to Rule 3.13 of the Listing Rules. The Company has received written confirmation from each of the independent non-executive Directors regarding their independence as required under the Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors to be independent.

## Corporate Governance Report

### A.3 Chairman and Chief Executive

The position of the Chairman of the Board is held by Mr. Bo Wanlin, who provides leadership for the Board to ensure its effectiveness. Ms. Bai Li has been acting as the chief executive of the Company. Ms. Bai focuses on the Company's business development, daily management and general operations. The roles and responsibilities between the Chairman of the Board and the chief executive is separated to ensure a balance of power and authority, so that power is not concentrated in any one individual.

### A.4 Responsibilities and delegation of functions

The Company has formalised and adopted written terms on the division of functions reserved to the Board and those delegated to the management of the Company. The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary (the "**Company Secretary**") and senior management of the Company, with a view to ensuring compliance with the Board procedures and all applicable laws and regulations. Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request being made to the Board. The day-to-day management, administration and operations of the Company are delegated to the executive Directors and senior management of the Company. The Board has delegated a schedule of responsibilities to these officers for the implementation of the Board decisions. The Board periodically reviews the delegated functions and work tasks. Prior to entering into any significant transactions, the aforesaid officers have to obtain the Board's approval.

The Company has not established a corporate governance committee and the Board is responsible for performing the corporate governance duties, which include:

- (1) to develop and review the policies and practices on corporate governance of the Company;
- (2) to review and monitor the training and continuous professional development of Directors and senior management;
- (3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and
- (5) to review the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company.

## Corporate Governance Report

### A.5 Appointment, re-election and removal of directors

Pursuant to Article 103 of the Articles of Association, all current Directors were re-elected at the annual general meeting on 12 June 2020 for a term of three years.

### A.6 Board meetings, general meetings and procedures

The Board convened a total of four Board meetings and two general meetings (i.e. the annual general meeting on 8 June 2021 and the extraordinary general meeting on 26 October 2021) were held during the year ended 31 December 2021. The following is the Directors' attendance record of meetings held by the Board and general meetings:

	Number of meetings attended in person/ attended by proxy/ number of Board meetings	Number of meetings attended in person/ number of general meetings
Mr. Bo Wanlin	4/0/4	2/2
Ms. Bai Li	4/0/4	2/2
Ms. Zhou Yinqing	4/0/4	2/2
Mr. Bo Nianbin	4/0/4	2/2
Mr. Zuo Yuchao	4/0/4	2/2
Mr. Bao Zhenqiang	4/0/4	2/2
Mr. Wu Xiankun	4/0/4	2/2
Mr. Chan So Kuen	4/0/4	2/2

During the year ended 31 December 2021, a meeting was held between the chairman of the Board and the independent non-executive Directors, which was a meeting without the presence of other Directors.

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly.

Schedules for regular Board meetings and draft agenda of each Board meeting are sent to all Directors in advance. Notice of at least 14 days is given for a regular Board meeting. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are dispatched to all Directors at least three days before each regular Board meeting to ensure that the Directors have sufficient time to review the related documents and be adequately prepared for the meeting.

The secretary to the Board is responsible for keeping minutes of all Board and committee meetings. Draft minutes are normally circulated to all Directors for comments within a reasonable time after each meeting and the final version is open to Directors for inspection. The Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

## Corporate Governance Report

### A.7 Continuous professional development

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Company and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been provided monthly updates giving a balanced and understandable assessment of the Group's performance, financial position and prospects to keep the Directors' abreast of the Group's affairs in order to discharge their duties. Updates on the latest developments regarding the Listing Rules and other applicable regulatory requirements have been provided to all Directors from time to time to ensure compliance and enhance their awareness of good corporate governance practices. Continuous briefings and professional development to Directors will be arranged whenever necessary.

During the year ended 31 December 2021, all Directors had participated in continuous professional development in the following manner in compliance with code provision A.6.5 of the CG Code (which has been renumbered as code provision C.1.4 under the New CG Code):

Name of Directors	Type of training
Mr. Bo Wanlin	A, B
Ms. Bai Li	A, B
Ms. Zhou Yinqing	A, B
Mr. Bo Nianbin	A, B
Mr. Zuo Yuchao	A, B
Mr. Bao Zhenqiang	A, B
Mr. Wu Xiankun	A, B
Mr. Chan So Kuen	A, B

A: attending seminars/courses/conference to develop professional skills and knowledge

B: reading materials in relation to regulatory update

### A.8 Corporate governance functions

As mentioned in the paragraph A.4 "Responsibilities and delegation of functions" of this report, the Board is responsible for performing the corporate governance duties. During the year, the Board has reviewed the Company's policies and practices on corporate governance and compliance with the CG Code, reviewed and monitored the continuous professional development of the Directors and also reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements.

## Corporate Governance Report

### B. BOARD COMMITTEES

The Board has established three Board committees, namely, the audit committee (the “**Audit Committee**”), the nomination committee (the “**Nomination Committee**”) and the remuneration committee (the “**Remuneration Committee**”) with written terms of reference, which are available for viewing on the websites of the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), to assist them in the efficient implementation of their functions. Specific responsibilities have been delegated to the above committees and the corporate governance duties as required under code provision D.3.2 of the CG Code (which has been renumbered as code provision principle A.2 under the New CG Code) have been performed.

#### B.1 Audit Committee

The Audit Committee was established by the Company on 31 January 2015 in accordance with Rules 3.21 to 3.23 of the Listing Rules. The terms of reference of the Audit Committee was adopted in compliance with the CG Code and was amended on 17 July 2019. The primary duties of the Audit Committee are mainly to (i) review the financial statements and reports and consider any significant or unusual items raised by the Company’s staff responsible for the accounting and financial reporting function or external auditors before submission to the Board; (ii) review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditors; and (iii) review the adequacy and effectiveness of the Company’s financial reporting system, risk management and internal control systems and associated procedures.

As at 31 December 2021, the Audit Committee has three members comprising Mr. Chan So Kuen (Chairman), Mr. Wu Xiankun and Mr. Bao Zhenqiang, all of whom are independent non-executive Directors. During the year ended 31 December 2021, the Audit Committee had reviewed the annual results and reports of the Company for the year ended 31 December 2020, and the interim results and reports of the Company for the periods ended 30 June 2021. Subsequent to 31 December 2021 and up to the date of this report, all members of the Audit Committee had attended a meeting to review the Company’s risk management and internal control systems and the Company’s final results and the annual results announcement for the year ended 31 December 2021. The Company’s final results and the annual results announcement for the year ended 31 December 2021 and this annual report had been reviewed by the Audit Committee before submission to the Board for approval. Members of the Audit Committee were of the opinion that the preparation of such results complied with the applicable accounting standards, Listing Rules and that adequate disclosure have been made.

During the year ended 31 December 2021, two meetings of the Audit Committee were held and the attendance of each member of the Audit Committee is contained in the following table:

	Number of attendance/ number of meetings
Mr. Chan So Kuen ( <i>Chairman</i> )	2/2
Mr. Wu Xiankun	2/2
Mr. Bao Zhenqiang	2/2

## Corporate Governance Report

### B.2 Nomination Committee

The Company has established the Nomination Committee on 31 January 2015 with written terms of reference in compliance with the CG Code. The terms of reference was amended on 17 July 2019. The primary duties of the Nomination Committee are mainly to (i) review the structure, size and composition (including but not limited to the perspectives, skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, having due regard to the board diversity policy and nomination policy of the Company; (iii) assess the independence of independent non-executive Directors of the Company; (iv) make recommendations to the Board on the appointment or re-appointment of Directors of the Company and succession planning for Directors of the Company, in particular the chairman and the chief executive; and (v) review the board diversity policy and nomination policy of the Company regularly and in any event, at least once a year.

As at 31 December 2021, the Nomination Committee has three members comprising of one executive Director, Mr. Bo Wanlin (Chairman) and two independent non-executive Directors, namely Mr. Wu Xiankun and Mr. Bao Zhenqiang. During the year ended 31 December 2021, a meeting of the Nomination Committee was held to review the structure and composition of the Board, assess the independence of independent non-executive Directors and review the board diversity policy and nomination policy of the Company. The attendance of each member of the Nomination Committee is contained in the following table:

	Number of attendance/ number of meeting
Mr. Bo Wanlin ( <i>Chairman</i> )	1/1
Mr. Wu Xiankun	1/1
Mr. Bao Zhenqiang	1/1

### Board Diversity Policy

The Board adopted a Board diversity policy (the "**Board Diversity Policy**") on 31 January 2015 which was subsequently amended on 8 November 2018. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Company commits to selecting the best person for the role. Selection and nomination of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge, views, time contribution and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. Nomination Committee had made recommendations to the Board on the measurable objectives for implementing the Board Diversity Policy and nomination policy.

## Corporate Governance Report

As at December 31 2021, the Board has two female members and six male members. Members of the Board have a reasonable age structure, with five directors aged 40-50, one director aged 51-60, and two directors aged above 60. Members of the Board possess wide range of professional experience, including but not limited to corporate strategic planning, corporate management, finance and financial affairs.

The Nomination Committee has considered measurable objectives based on four focus areas: gender, age, professional experience and length of service to implement the Board Diversity Policy. Such objectives will be reviewed from time to time as and when appropriate and at least once a year to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committee will review the Board Diversity Policy as appropriate and at least once a year to ensure its continued effectiveness from time to time.

### Nomination Procedures

The Nomination Committee identifies individuals suitably qualified to become Board members, having due regard to the Board Diversity Policy, nomination policy and the needs of the Company by making reference to the perspectives, skills, knowledge, experience, etc. of the proposed candidate and assesses the independence of the proposed independent non-executive director, as the case may be. Qualified candidates will then be recommended to the Board for approval of appointment or Board's recommendation to stand for election at a general meeting. The Board shall have the ultimate responsibility for all matters relating to the selection and appointment of directors.

### B.3 Remuneration Committee

The Company established the Remuneration Committee on 31 January 2015 with written terms of reference in compliance with the CG Code. The terms of reference was amended on 17 July 2019. The Remuneration Committee adopted the approach under code provision B.1.2(c) (ii) of the CG Code (which has been renumbered as code provision E.1.2(c)(ii) under the New CG Code) to make recommendation to the Board on the remuneration packages of individual Directors and senior management. The primary duties of the Remuneration Committee are mainly to (i) make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; and (iii) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

As at 31 December 2021, the Remuneration Committee has three members comprising three independent non-executive Directors, Mr. Bao Zhenqiang (Chairman), Mr. Chan So Kuen and Mr. Wu Xiankun. The remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Company and general market conditions. During the year ended 31 December 2021, a meeting of the Remuneration Committee was held to review the remuneration policy and package of the Directors and senior management of the Company and to assess the performance of each executive Director. The attendance of each member of the Remuneration Committee is contained in the following table:

	Number of attendance/ number of meeting
Mr. Bao Zhenqiang ( <i>Chairman</i> )	1/1
Mr. Chan So Kuen	1/1
Mr. Wu Xiankun	1/1

## Corporate Governance Report

### C. REMUNERATION OF SENIOR MANAGEMENT

The biographical details of the senior management are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report.

The remuneration paid/payable to senior management other than the Directors of the Company for the year ended 31 December 2021 fell within the following band:

	Number of individual
Nil to HK\$500,000	0

### D. DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial year and to ensure that the financial statements are prepared in accordance with statutory requirements and applicable accounting standards. The statement by the auditor of the Company about their responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 70 to 73 of this annual report. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

### E. RISK MANAGEMENT AND INTERNAL CONTROL

During the year ended 31 December 2021, the Company has complied with code provision principle C.2 of the CG Code (which has been renumbered as code provision principle D.2 under the New CG Code) by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

#### Risk Management System

The Company adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

With regard to the principal risks encountered by the Group, please refer to the paragraph headed "PRINCIPAL RISKS AND UNCERTAINTIES" under the "Report of the Board of Directors" set out in this annual report.

Based on the risk assessments conducted in 2021, no significant risk was identified.

## Corporate Governance Report

### Internal Control System

The Company has in place an internal control system which enables the Company to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the internal control system framework are shown as follow:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Company.
- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Company's objectives, forming a basis for determining how risks should be managed.
- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- Information and Communication: Internal and external communication to provide the Company with the information needed to carry out day-to-day controls.
- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

In order to enhance the Company's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Company also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Company, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- Confidentiality agreements are in place when the Company enters into significant negotiations.
- The executive Directors are designated persons to speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

The Company has established standardized process to monitor the grant of loans, which specifies the operation standards and due diligence requirements for pre-loan investigation, review when granting loan and post-loan inspection (貸前調査・貸時審査・貸後検査). For pre-loan investigation, site visit has to be conducted and findings have to be reported faithfully, without evading any potential risks, and the conclusion of the investigation shall not be varied by the subjective will of any person. Loan review shall be conducted independently, objectively and impartially to fully and accurately reveal different risks and to propose countermeasures to mitigate the risks. Post-loan inspection serves the purpose of regular monitoring through site visit and truly recording the findings and any issues identified during the inspection shall be summarized and reported to the relevant personnel in a timely manner, without covering or concealing any problems identified.

Based on the internal control reviews conducted in 2021, no significant internal control deficiency was identified.

## Corporate Governance Report

The Company ensures such policy has been strictly followed and enhanced during the year through the following management process.

### ***Reward and punishment policy***

In order to ensure the effective implementation and enforcement of the Company's credit policy and prevent credit risks, the Company has a reward and punishment policy. Rewards and penalties for employees in the customer service department and risk management departments are determined based on their compliance with the credit process and the risk profile of the loans and borrowers they manage.

### ***Personnel professionalism requirements***

The Company requires personnel in the customer service department and risk management department must have relevant experience and qualifications to ensure professionalism, and the Company also set specific requirements for the hours and content of their annual on-the-job training.

### ***Review process of risk management department***

For loans of RMB100,000 and above, the risk management department will review the reports of the pre-loan investigation and site visit, and examine the borrower's family structure, actual income, business operation, and the ability to repaying loan, etc. in the above reports. In addition, when applicable, the risk management department will require the investigation report for the guarantor and valuation report for collateral to ensure that the guarantee is valid and reliable.

### ***Authorization mechanism for loan applications***

The key terms and conditions of a loan, such as principal loan amount, interest rate, quality and sufficiency of guarantees and collaterals (if any) and term of loan, are considered and approved in the loan application review and approval process. Loans in the amount of RMB500,000 or above must be approved by the loan review committee of the Company (the "**Loan Review Committee**"), while loans in the amount of less than RMB500,000 can be approved by the general manager of the Company. The Loan Review Committee comprises six members and is headed by the general manager of the Company, who is vested with the right to veto a loan application. The Company ensures that the terms and conditions of the loans granted are in accordance with the Company's credit policy by strictly enforcing the above authorization mechanism.

### ***Internal audit***

The Company has established an internal audit department, which will supervise the whole process of internal operation and conduct independent evaluation to ensure the policies policy has been strictly followed. The internal audit department conducts internal audits and reviews the compliance and effectiveness of the credit process, and has the right to inspect all relevant loan application materials and examine whether the customer service department and the risk management department perform their duties effectively according to the policies. When applicable, the internal audit department will make recommendations to resolve the findings, and report directly to the general manager and the Board.

The internal audit department is also responsible for formulating annual audit plans, conducting internal audits according to the annual audit plans, and if applicable, liaising with and assisting external audit consultant in conducting internal audits. The internal audit department is independent of the Company's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

## Corporate Governance Report

### ***Additional training sessions and risk scanning in 2021***

To further enhance the Company's credit policy and risk control, the Company conducted two additional training sessions on credit risk control for the personnel in the customer service department and risk management department in the second half of 2021. In addition, the Company has conducted a comprehensive risk scanning for all the borrowers engaged in industries that have been greatly affected by the outbreak of the COVID-19 pandemic since July 2021 and the implementation of strengthened macro-control policies for local real estate market; performed additional site visits to investigate the borrowers' business operations and conducted interview with borrowers to identify whether they have difficulties in repaying their loans on schedule; and asked borrowers to provide further evidence to support their financial ability.

### **Effectiveness of the Risk Management and Internal Control Systems**

The Board is responsible for the risk management and internal control systems of the Company and ensuring review of the effectiveness of these systems has been conducted annually. The review covered all material controls, including financial, operational and compliance controls. Several areas have been considered during the Board's review, including but not limited to (i) the changes in the nature and extent of significant risks (including ESG risks) since the last annual review, and the Company's ability to respond to changes in its business and the external environment; (ii) the scope and quality of management's ongoing monitoring of risks (including ESG risks) and of the internal control systems; and (iii) the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit, financial reporting functions, as well as those relating to the Company's ESG performance and reporting. With regard to the ESG performance for the year ended 31 December 2021, please refer to the section headed "Environmental, Social and Governance Report" set out in this annual report.

The Board, through its review and the review made by IA Department and the Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

## Corporate Governance Report

### F. INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid/payable to the auditor of the Company for the year ended 31 December 2021 is set out as follows:

Services rendered	Paid/payable RMB'000
Audit services	1,604
Non-audit services	18
<b>Total</b>	<b>1,622</b>

### G. COMPANY SECRETARY

Mr. Lau Kwok Yin ("**Mr. Lau**") was appointed as a joint company secretary of the Company on 30 May 2018. Following the resignation of Mr. Xu Lei ("**Mr. Xu**") as the company secretary of the Company with effect from 28 June 2021, Mr. Lau remains in office and carries out duties as the sole company secretary of the Company. Please refer to the announcement of the Company dated 28 June 2021 in respect of details of Mr. Xu's resignation as company secretary of the Company.

Mr. Lau, aged 36, has over 10 years' experience in corporate secretarial services, finance and banking operations. He joined SWCS Corporate Services Group (Hong Kong) Limited ("**SWCS**", a corporate service provider) in March 2018 and is currently an assistant vice president of SWCS, responsible for assisting in providing company secretarial services. Mr. Lau holds a bachelor of business administration degree in accounting and finance from The University of Hong Kong, and is a member of the Hong Kong Institute of Certified Public Accountants, a Chartered Financial Analyst charter holder, and a fellow of the Chartered Governance Institute and the Hong Kong Chartered Governance Institute. Mr. Lau currently serves as the company secretary and joint company secretary of several companies listed on the Stock Exchange.

According to the requirements of Rule 3.29 of the Listing Rules, Mr. Lau has taken not less than 15 hours of relevant professional training during the year ended 31 December 2021. Ms. Zhou Yinqing, an executive Director, the deputy general manager and the secretary to the Board of the Company, is the primary corporate contact person at the Company.

## Corporate Governance Report

### H. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that a transparent and timely disclosure of the Company's information will enable the Shareholders and investors to make the best investment decision and to have better understanding on the Company's business performance and strategies. It is also vital for developing and maintaining continuing investor relations with the Company's potential and existing investors.

The Company has adopted a Shareholders Communication Policy in May 2017 (the "**Shareholders Communication Policy**"), which will be reviewed on a regular basis to ensure its effectiveness. The Shareholders Communication Policy is available on the Company's website ([www.gltaihe.com](http://www.gltaihe.com)) for public access.

The Company's website serves as a communication platform with the Shareholders and investors, where the Company's business developments and operations, financial information, corporate governance practices and other information are also available for public access.

The Shareholders and investors may also write directly to the Company's principal place of business in Hong Kong at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong or via email to [zyq@gltaihe.com](mailto:zyq@gltaihe.com) for any inquiries. Inquiries are dealt with in an informative and timely manner.

The Board considers that general meetings of the Company provide an important channel for the Shareholders to exchange views with the Board. The Chairman of the Board as well as the chairmen and/or other members of the Board committees will endeavor to be available at the general meetings to answer any questions raised by the Shareholders.

The Company continues to enhance communication and relationship with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them informed of the Company's developments.

### I. SHAREHOLDERS' RIGHTS

#### **Procedures for convening extraordinary meeting or class meeting on requisition**

The Shareholders of the Company shall follow the following procedures as prescribed in Article 85 of the Articles of Association to convene an extraordinary general meeting or class meeting of the Company:

- (1) Shareholders who individually or jointly hold 10% or more of the voting shares at the proposed meeting may make a proposal to the Board on holding an extraordinary general meeting or class meeting by signing one or several written requests with same contents in the same format and define the meeting agenda. The Board shall convene such meeting as soon as possible upon receipt of the aforesaid written request. The aforesaid number of shares shall be calculated as of the date of written request;
- (2) If the Board fails to send notification of the meeting within 30 days from the date of the receipt of such request, the requesting Shareholders may propose to the board of supervisors to convene extraordinary general meeting or class meetings;

## Corporate Governance Report

- (3) Where the Board of Supervisors fails to issue notice of convening meeting within thirty days upon receipt of the above written request, shareholder(s), for more than 90 consecutive days, individually or collectively holding more than 10% of the shares carrying voting rights at the meeting to be convened may convene the meeting on their own accord within four months upon the Board having received such request. The convening procedures shall, to the extent possible, be identical to procedures according to which general meetings are to be convened by the Board.

Where the Shareholders convene a meeting due to the failure by the Board to duly convene the same, all reasonable expenses so incurred shall be reimbursed by the Company, and any sum so reimbursed shall be set-off against such sums owed by the Company to the defaulting directors.

### Procedures for raising enquiries

The Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's H share registrar in Hong Kong, Tricor Investor Services Limited, details of which are as follows:

#### Tricor Investor Services Limited

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Email: is-enquiries@hk.tricorglobal.com

Tel: (852) 2980 1333

Fax: (852) 2810 8185

The Shareholders may at any time raise any enquiry in respect of the Company at the following designated contacts, correspondence addresses, email addresses and enquiry hotlines of the Company:

#### Attention: Board of Directors/Company Secretary

Address: Beizhou Road, Lidian Town, Guangling District, Yangzhou City, Jiangsu Province, the PRC

Email: zyx@jltaihe.com

Tel: (86) 514-87947629

Fax: (86) 514-87948990

The Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

### Procedures for the Shareholders to put forward proposals at general meeting

According to the Article 66 of the Articles of Association, when a general meeting is convened by the Company, Shareholders who individually or collectively hold 3% or more of the total voting shares of the Company shall be entitled to propose new resolutions in writing to the Company. Such Shareholders shall submit ad hoc proposals in writing to the Board 10 days before the convening of the general meeting. The Board shall issue a supplemental notice of general meeting and notify other Shareholders within 2 days upon receipt of the proposals and submit the ad hoc proposals to the general meeting for consideration. The Company shall place such proposals on the agenda for such meeting if they are matters falling within the scope of duties of the general meeting.

## Corporate Governance Report

### J. CONSTITUTIONAL DOCUMENTS

Pursuant to the resolutions of the Shareholders passed on 31 January 2015, the Articles of Association were adopted with effect from the listing date. In 2018, certain amendments were made to the Articles of Association to align with current condition of the Company's management. These amendments were passed by the Shareholders at the extraordinary general meeting of the Company held on 9 January 2018 and the amended version of the Articles of Association has been adopted since then. In 2019, In light of the Transfer of Listing, the articles amendments were made to comply with the requirements of the Listing Rules and the relevant regulations in the PRC and Hong Kong. These amendments were passed by the Shareholders at the extraordinary general meeting, H Shareholders at the H Shareholders Class Meeting, Domestic Shareholders at the Domestic Shareholders Class Meeting of the Company respectively held on 6 March 2019 and the amended version of the Articles of Association has been adopted since 17 July 2019. In 2020, according to the latest regulations of the PRC on overseas listed companies, certain amendments were made to the Articles of Association. These amendments were passed by the Shareholders at the extraordinary general meeting, H Shareholders at the H Shareholders Class Meeting, Domestic Shareholders at the Domestic Shareholders Class Meeting of the Company respectively held on 12 June 2020 and the amended version of the Articles of Association has been adopted since then. To reflect the transfer of domestic shares of the Company on 15 July 2021 (as disclosed in the announcement of the Company dated 15 July 2021), certain amendments were made to the Articles of Association which were approved by the Shareholders at the extraordinary general meeting of the Company held on 26 October 2021 and the amended version of the Articles of Association has been adopted since then.

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

## Report of the Board of Directors

The Board of Directors of the Company is pleased to present the annual report and the audited financial statements of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2021.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company’s strategic goal is to become a leading regional microfinance company focusing on meeting the interim business financing needs of SMEs, microenterprises and individual proprietors. With the successful listing of Taihe Micro-finance on the Stock Exchange on 8 May 2017 and Transfer of Listing on 17 July 2019, the Company had further strengthened the competitive advantages and provided the services to more SMEs, microenterprises and individual proprietors. As at 31 December 2021, the Company’s balance of outstanding loans (before allowance for impairment losses) was approximately RMB837.9 million, representing decrease of approximately 10.2% as compared to approximately RMB932.7 million in the previous year. For the year ended 31 December 2021, we granted loans to 478 customers, representing decrease of approximately 12.9% as compared to 549 customers for the year ended 31 December 2020.

For further discussion and analysis of the Group’s principal activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including an analysis using financial key performance indicators, a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group’s business, please refer to the section headed the Management Discussion and Analysis set out on pages 6 to 20 of this annual report. This discussion forms part of this Directors’ Report.

### SEGMENT INFORMATION

Details of segment information are set out in note 30 to the consolidated financial statements.

### PRINCIPAL RISKS AND UNCERTAINTIES

As a microfinance company dedicated to serving the interim business financing needs of SMEs, microenterprises and individual proprietors, credit risk is the most significant risk inherent to our business. With the aim of addressing credit risks that the Group is exposed to, we have put in place a standardized and centralized risk management system, and implemented the “separation of due diligence and approval (審貸分離)” policy. While our risk management system is designed to manage our credit risk, there can be no assurance that such system will be effective in avoiding all undue credit risk. Meanwhile, the business operation of the Company 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, modification or suspension of the business operation by the authorities. The Company closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

For details of environmental, social and governance performance of the Group, please refer to the section headed “Environmental, Social and Governance Report” set out on pages 56 to 69 of this annual report.

## Report of the Board of Directors

### COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out in Hong Kong and the PRC while the Company itself is listed on the Stock Exchange. The Company's establishment and operations accordingly shall comply with all PRC laws and applicable laws in the jurisdictions where it has operations. During the year ended 31 December 2021 and up to the date of this annual report, the Group has complied with all the relevant laws and regulations in the PRC and Hong Kong in all material respects.

The Directors are not aware of any laws and regulations which are industry specific, and have material implication or impact to the business and operation of the Group.

### RESULTS

The Company's results for the year ended 31 December 2021 and the state of affairs of the Group and the Group at that date are set out in the consolidated financial statements on pages 74 to 135.

### PROFIT DISTRIBUTION PLAN AND DIVIDENDS

The profit distribution plan of the Company for the year ended 2021 was as follows: (i) 10% of 2021 net profit amounting to RMB520,346 was appropriated to the statutory surplus reserve; and (ii) RMBO was appropriated to the general reserve. The above profit distribution proposal for 2021 is subject to the approval of the Shareholders at the 2021 annual general meeting of the Company.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021.

### CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

The 2021 annual general meeting (the "**AGM**") of the Company will be held at 10:00 a.m. on Wednesday, 8 June 2022 at 2/F, No. 1 Hongqi Avenue, Jiangwang Town, Hanjiang District, Yangzhou City, Jiangsu Province, the PRC. In order to determine the Shareholders' eligibility to attend the AGM, the register of members of the Company will be closed from Thursday, 2 June 2022 to Wednesday, 8 June 2022, both days inclusive, during which no transfer of Shares will be registered. Only Shareholders whose names appear on the register of members of the Company on Wednesday, 8 June 2022 or their proxies or duly authorised corporate representatives are entitled to attend the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer documents accompanied with relevant share certificates must be lodged with the Company's H share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H shares), or the Company's principal place of business in the PRC at 2/F, No. 1 Hongqi Avenue, Jiangwang Town, Hanjiang District, Yangzhou City, Jiangsu Province, the PRC (for holders of domestic shares) not later than 4:30 p.m. on Wednesday, 1 June 2022.

### RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group recognises that good communication with different stakeholders (including but not limited to our employees, Shareholders, customers, suppliers and investors) may help continuous improvement of sustainability performance and governance.

For details, please refer to the section headed "Environmental, Social and Governance Report" set out in this annual report.

## Report of the Board of Directors

### FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out in the section headed "Five-Year Financial Summary" on page 136 of this annual report. This summary does not form part of the audited consolidated financial statements.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in the section headed "Statement of Changes in Equity" of this annual 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.

### TAX RELIEF AND EXEMPTION

During the year ended 31 December 2021, the Company is not aware of any tax relief and exemption available to the Shareholders by reason of the holding of the Company's listed securities.

If the Shareholders are unsure about the taxation implication of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, they are advised to consult their professional advisers.

### PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Company during the year ended 31 December 2021 are set out in note 19 to the consolidated financial statements.

### DISTRIBUTABLE RESERVES

Details of movements in reserves of the Company during the year ended 31 December 2021 are set out in the section headed "Consolidated Statement of Changes in Equity" on page 76 of this annual report. As at 31 December 2021, the Company's retained earnings amounted to approximately RMB174.5 million.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, the percentage of revenue attributable to the Company's major customers is set out below:

#### Revenue

– The largest customer	2.49%
– The total of five largest customers	9.02%

As far as the Directors aware, neither the Directors nor their respective close associates nor any Shareholder (which to the knowledge of Directors own more than 5% of the Company's issued Shares) had any interest in the five largest customers of the Company.

Due to the business nature of the Company, the Company does not have major suppliers.

## Report of the Board of Directors

### DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

#### Executive Directors

Mr. Bo Wanlin (*Chairman*)  
Ms. Bai Li  
Ms. Zhou Yingqing

#### Non-executive Directors

Mr. Bo Nianbin  
Mr. Zuo Yuchao

#### Independent non-executive Directors

Mr. Bao Zhenqiang  
Mr. Wu Xiankun  
Mr. Chan So Kuen

Pursuant to Article 103 of the Articles of Association, all current Directors were re-elected at the annual general meeting on 12 June 2020 for a term of three years.

The Company has received annual confirmations of independence from all three independent non-executive Directors pursuant to the Rule 3.13 of the Listing Rules and the Company considers the independent non-executive Directors to be independent.

### BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are set out in the section headed “Biographical Details of Directors, Supervisors and Senior Management” of this annual report.

### DIRECTORS’ SERVICE AGREEMENTS

No Director or Supervisor has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

### CHANGES IN DIRECTORS’ INFORMATION

There were no changes to the Directors’ information since the date of the 2021 interim report of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## Report of the Board of Directors

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

No Directors or Supervisors, or entity connected with any Directors or Supervisors had material interest, either directly or indirectly, in any transactions, arrangements or contract of significance to the business of the Company during the year ended 31 December 2021.

### CONTRACT OF SIGNIFICANCE WITH A CONTROLLING SHAREHOLDER OR ANY OF ITS SUBSIDIARIES

In January 2021, the Company (as leasee) entered into a lease contract with Jiangsu Liantai Fashion Shopping Mall Real Estate Co., Ltd.\* (江蘇聯泰時尚購物廣場置業有限公司) ("**Liantai Guangchang**", a company incorporated in the PRC with limited liability and is held as to approximately 48.67%, 26.33%, 20.00% and 5.00% by Botai Group, Mr. Bo Wanlin, Mr. Bo Nianbin and Ms. Bai Li, respectively) (as lessor) in respect of the leasing of the Company's office for a term of three years commencing from 1 January 2021 to 31 December 2023, details of which are disclosed on page 124 of this annual report.

Save as disclosed above, there was neither contract of significance between the Company and a controlling Shareholder (as defined in the Listing Rules) or any of its subsidiaries, nor contract of significance for the provision of services to the Company by a controlling Shareholder or any of its subsidiaries during the year ended 31 December 2021.

### DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Except as disclosed in this annual report, none of the Directors or Supervisors or any of their respective associates was granted by the Company any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right.

### 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 existed during the year ended 31 December 2021.

## Report of the Board of Directors

### PERMITTED INDEMNITY

In accordance with Article 149 of the Articles of Association, the Company may establish the necessary liability insurance system for directors, supervisors and senior management to reduce the risks that may be caused by the normal performance of duties of such personnel.

During the year ended 31 December 2021, the Company has purchased liability insurance for Directors and Supervisors which provides proper insurance for the Directors and Supervisors in respect of liabilities from legal actions against them arising from corporate activities.

### DONATIONS

During the year ended 31 December 2021, the Company has made a total of donations of RMB18,525.20. (2020: RMB50,000).

### RELATED PARTY TRANSACTIONS

Details of material related party transactions entered into by the Company are set out in note 29 to the consolidated financial statements. None of the related party transactions constitutes a connected transaction or continuing connected transaction that is required to be disclosed under Chapter 14A of the Listing Rules.

### EMOLUMENT POLICY

The Remuneration Committee was set up for reviewing the Company's emolument policy and structure of all remuneration of the Directors and senior management of the Company, having regard to the Company's operating results, individual performance and comparable market practices. No long-term incentive schemes have been adopted by the Company.

### REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five individuals with highest emoluments are set out in note 9 and note 10 to the consolidated financial statements.

### EMPLOYEE RETIREMENT SCHEMES

The Company participates in pension scheme organized by the municipal government of Yangzhou City, Jiangsu for the Company's employees based in the PRC. During the year end 31 December 2021, the Company has no forfeited contributions used by the employer to reduce the existing level of contributions. Details of the pension scheme is set out in the paragraph headed "Employee benefits" under note 3.3 to the consolidated financial statements.

## Report of the Board of Directors

### DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

As at the date of this report, Botai Group (a controlling shareholder of our Company (as defined in the Listing Rules)) held 8% interest in Yangzhou Guangling Zhongcheng Rural Bank Co., Ltd.\* (揚州廣陵中成村鎮銀行股份有限公司) ("**Zhongcheng Bank**").

Zhongcheng Bank principally engages in certain banking business such as taking public deposit; providing short term, medium term and long term loans; domestic exchange settlement; notes acceptance and discount; interbank borrowing; debit card issuing; issuing and cashing agency, undertaking governmental bond; accounts receivable and payable agency; and other business approved by China Banking Regulatory Commission ("**Banking Business**") in Guangling District of Yangzhou.

For further details on the general information of Zhongcheng Bank and the reasons that our Directors are of the view that the competition between the principal businesses of Zhongcheng Bank and the Company is limited and not extreme, please refer to the paragraph headed "Relationship with the Controlling Shareholders – other Businesses Invested by our Controlling Shareholders" in the Company's prospectus dated 24 April 2017.

Save as disclosed above, as at 31 December 2021, none of the controlling Shareholders, Directors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with our principal business, which would require disclosure under Rule 8.10 of the Listing Rules.

### NON-COMPETITION UNDERTAKING

As disclosed in the Company's prospectus dated 24 April 2017, Botai Group, Liantai Guangchang, Mr. Bo Wanlin (柏萬林), Ms. Wang Zhengru (王正茹) (spouse of Mr. Bo Wanlin), Mr. Bo Nianbin (柏年斌) and Ms. Bai Li (柏莉) have executed a non-competition agreement with the Company on 6 April 2017, which was substituted by a new one executed on 9 July 2019 (the "**Non-competition Agreement**") due to the Company's Transfer of Listing, which is in substantially the same terms as the non-competition agreement executed on 6 April 2017, with references to GEM being amended to the main board of the Stock Exchange.

Save for what has been disclosed in the paragraph headed "Directors' and Controlling Shareholders' Interest in Competing Business", each of the controlling Shareholders has confirmed in writing to the Company of his/her/its compliance with the Non-competition Agreement for disclosure in this report during the year ended 31 December 2021 and up to the date of this report. The independent non-executive Directors have also reviewed the status of compliance by each of Botai Group, Liantai Guangchang, Mr. Bo Wanlin (柏萬林), Ms. Wang Zhengru (王正茹), Mr. Bo Nianbin (柏年斌), Ms. Bai Li (柏莉) with the undertakings in the Non-competition Agreement and have confirmed that, as far as they can ascertain, there is no breach of any of the undertakings in the Non-competition Agreement.

\* For identification purpose only

## Report of the Board of Directors

### DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2021, interests or short positions of the Directors, the Supervisors and chief executive of the Company and their associates in any of the Shares and debentures or underlying Shares and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong)), 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 circumstance of interests or short positions deemed or taken to have under such provisions of the SFO), or interests or short positions in the underlying Shares and debt securities of the Company recorded in the register required to be kept pursuant to Section 352 of the SFO or share transaction as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules were as follows:

#### Shares of the Company

Director/Supervisor	Nature of interest	Number of Shares held <sup>(1)</sup>	Approximate shareholding percentage in the relevant class of Shares <sup>(2)</sup>	Approximate percentage of shareholding in the total issued Shares <sup>(3)</sup>
Mr. Bo Wanlin	Interest in controlled corporation <sup>(4)(5)</sup>	322,100,000 Domestic Shares (L)	71.58%	53.68%
Ms. Bai Li	Beneficial owner	10,000,000 Domestic Shares (L)	2.22%	1.67%
Mr. Zuo Yuchao	Beneficial owner	2,600,000 Domestic Shares (L)	0.58%	0.43%
Ms. Zhou Yinqing	Beneficial owner	700,000 Domestic Shares (L)	0.16%	0.12%

## Report of the Board of Directors

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the domestic shares of the Company.
- (2) The calculation is based on the number of 450,000,000 domestic shares (namely, ordinary shares in the Company capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC-incorporated entities) in issue as at 31 December 2021.
- (3) The calculation is based on the total number of 600,000,000 Shares in issue as at 31 December 2021.
- (4) As at 31 December 2021, Botai Group is directly interested in 180,200,000 domestic shares, representing approximately 40.04% shareholding interest in the relevant class of Shares in the Company. The disclosed interest represents the interest in the Company held by Botai Group which in turn held as to approximately 33.33% by Mr. Bo Wanlin, approximately 25.00% by Mr. Bo Nianbin, approximately 25.00% by Ms. Bai Li and approximately 6.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin). Mr. Bo Wanlin and Ms. Wang Zhengru control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in the Company by virtue of the SFO.
- (5) As at 31 December 2021, Liantai Guangchang is directly interested in 141,900,000 domestic shares, representing approximately 31.53% shareholding interest in the relevant class of Shares in the Company. The disclosed interest represents the interest in the Company held by Liantai Guangchang, which is in turn held as to approximately 48.67% by Botai Group, approximately 26.33% by Mr. Bo Wanlin, approximately 20.00% by Mr. Bo Nianbin and 5.00% by Ms. Bai Li. Botai Group controls more than one-third of the voting rights of Liantai Guangchang and is deemed to be interested in its interest in the Company by virtue of the SFO, and Mr. Bo Wanlin and Ms. Wang Zhengru (spouse of Mr. Bo Wanlin), control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in Liantai Guangchang and the Company by virtue of the SFO. On 24 February 2021, Botai Group and Liantai Guangchang, the controlling shareholders (as defined in the Listing Rules) of the Company, pledged 45,000,000 and 35,000,000 domestic shares in favour of an independent commercial bank in the PRC as securities for bank facilities in the amount of RMB30,000,000 and RMB30,000,000 respectively. On 26 March 2021 and 16 April 2021, Botai Group pledged 30,000,000 and 10,000,000 domestic shares in favour of two different independent commercial banks in the PRC as securities for bank facilities in the amount of RMB12,000,000 and RMB0, respectively.

## Report of the Board of Directors

### Associated Corporation

Director/Supervisor	Associated Corporation	Nature of interest	Approximate shareholding percentage in the relevant class of Shares in the Associated Corporation
Mr. Bo Wanlin	Botai Group	Beneficial owner <sup>(1)</sup>	33.33%
		Family interest of spouse <sup>(2)</sup>	16.67%
Ms. Bai Li	Botai Group	Beneficial owner <sup>(1)</sup>	25.00%
Mr. Bo Nianbin	Botai Group	Beneficial owner <sup>(1)</sup>	25.00%

Notes:

- (1) The disclosed interest represents the interests in Botai Group, the associated corporation which is wholly owned as to approximately 33.33% by Mr. Bo Wanlin, approximately 25.00% by Mr. Bo Nianbin, approximately 25.00% by Ms. Bai Li and approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin), respectively, as at 31 December 2021.
- (2) Mr. Bo Wanlin is the spouse of Ms. Wang Zhengru and is deemed to be interested in Ms. Wang Zhengru's interest in Botai Group by virtue of the SFO.

Save as disclosed above, as at 31 December 2021, none of the Directors, Supervisors and chief executive of the Company nor their associates had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or 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 deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept pursuant to section 352 of the SFO, or transactions of shares and debt securities otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 of the Listing Rules.

## Report of the Board of Directors

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2021, so far as the Directors are aware, each of the following persons has an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be entered into the register referred to in section 336 of the SFO:

Shareholders	Nature of interest	Number of Shares held <sup>(1)</sup>	Approximate shareholding percentage in the relevant class of Shares	Approximate percentage of shareholding in the total issued shares of the Company <sup>(3)</sup>
Botai Group <sup>(8)</sup>	Beneficial owner	180,200,000 Domestic Shares (L)	40.04% <sup>(2)</sup>	30.03%
	Interest in controlled corporation <sup>(4)</sup>	141,900,000 Domestic Shares (L)	31.53% <sup>(2)</sup>	23.65%
Mr. Bo Wanlin	Interest in controlled corporation <sup>(4),(5)</sup>	322,100,000 Domestic Shares (L)	71.58% <sup>(2)</sup>	53.68%
Ms. Wang Zhengru	Family interest of spouse <sup>(6)</sup>	322,100,000 Domestic Shares (L)	71.58% <sup>(2)</sup>	53.68%
Liantai Guangchang <sup>(8)</sup>	Beneficial owner	141,900,000 Domestic Shares (L)	31.53% <sup>(2)</sup>	23.65%
Shenzhen Gangfutong Financial Information Services Co.,Ltd. ("Shenzhen Gangfutong")	Beneficial owner	48,000,000 Domestic Shares (L)	10.67% <sup>(2)</sup>	8.00%
Ms. Zheng Jingyue	Interest in controlled Corporation <sup>(9)</sup>	48,000,000 Domestic Shares (L)	10.67% <sup>(2)</sup>	8.00%
	Beneficial owner	364,000 H Shares (L)	0.24% <sup>(7)</sup>	0.06%
Mr. Zhang Zhuo	Beneficial owner	30,000,000 Domestic Shares (L)	6.67% <sup>(2)</sup>	5.00%
	Beneficial owner	2,298,000 H Shares (L)	1.53% <sup>(7)</sup>	0.38%
Mr. Lu Qi	Beneficial owner	30,000,000 Domestic Shares (L)	6.67% <sup>(2)</sup>	5.00%

## Report of the Board of Directors

Notes:

- (1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the relevant class of Shares.
- (2) The calculation is based on the number of 450,000,000 domestic shares in issue as at 31 December 2021.
- (3) The calculation is based on the total number of 600,000,000 Shares in issue as at 31 December 2021.
- (4) As at 31 December 2021, Liantai Guangchang is held as to approximately 48.67% by Botai Group, approximately 26.33% by Mr. Bo Wanlin, approximately 20.00% by Mr. Bo Nianbin and approximately 5.00% by Ms. Bai Li. Botai Group controls more than one-third of the voting rights of Liantai Guangchang and is deemed to be interested in its interest in the Company by virtue of the SFO.
- (5) As at 31 December 2021, Botai Group is held as to approximately 33.33% by Mr. Bo Wanlin, approximately 25.00% by Mr. Bo Nianbin, approximately 25.00% by Ms. Bai Li and approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin). Mr. Bo Wanlin and Ms. Wang Zhengru control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in Liantai Guangchang and the Company by virtue of the SFO.
- (6) Ms. Wang Zhengru, the spouse of Mr. Bo Wanlin, is deemed to be interested in Mr. Bo Wanlin's interest in the Company by virtue of the SFO.
- (7) The calculation is based on the number of 150,000,000 H Shares in issue as at 31 December 2021.
- (8) On 24 February 2021, Botai Group and Liantai Guangchang, the controlling shareholders (as defined in the Listing Rules) of the Company, pledged 45,000,000 and 35,000,000 domestic shares in favour of an independent commercial bank in the PRC as securities for bank facilities in the amount of RMB30,000,000 and RMB30,000,000, respectively. On 26 March 2021 and 16 April 2021, Botai Group pledged 30,000,000 and 10,000,000 domestic shares in favour of two different independent commercial banks in the PRC as securities for bank facilities in the amount of RMB12,000,000 and RMB0, respectively.
- (9) Ms. Zheng Jingyue had a corporate interest in 48,000,000 domestic shares by virtue of the interest of the domestic shares held by Shenzhen Gangfutong, which is indirect and beneficially owned by Ms. Zheng Jingyue.

Save as disclosed above, as at 31 December 2021, so far as known to the Directors, no interests or short positions of substantial shareholders of the Company and other persons in any Shares and debentures or underlying Shares of the Company were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or were required to be entered into the register referred to in section 336 of the SFO.

## Report of the Board of Directors

### PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

On 24 February 2021, Botai Group and Liantai Guangchang, the controlling shareholders (as defined in the Listing Rules), pledged 45,000,000 and 35,000,000 domestic shares in favour of an independent commercial bank in the PRC as securities for bank facilities in the amount of RMB30,000,000 and RMB30,000,000 respectively. On 26 March 2021 and 16 April 2021, Botai Group pledged 30,000,000 and 10,000,000 domestic shares in favour of two different independent commercial banks in the PRC as securities for bank facilities in the amount of RMB12,000,000 and RMB0, respectively. The pledged domestic shares represent approximately 27.3% of the aggregate domestic shares held by Botai Group and Liantai Guangchang, approximately 26.7% of the total number of domestic shares in issue, and approximately 20.0% of the total Shares in issue on 16 April 2021.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

### ANNUAL FINANCIAL BUDGET FOR 2022

Considering the macro-economic situation, financial condition and the business growth of the Company in last three years, the Company has formulated the annual financial budget for 2022 after detailed calculation and analysis and collecting different opinions. The details are set out as follows:

- I. The estimated maximum total administrative expenses will be RMB20 million;
- II. According to the needs of strategic development and business expansion, the planned maximum capital expenditure of the Company will be RMB40 million, mainly including the expenses for properties renovation, IT system development and purchasing other fixed assets.

The annual financial budget for 2022 of the Company was considered and approved by the Board on 25 March 2022 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

### AUDIT COMMITTEE

The Audit Committee was established by the Board on 31 January 2015. The role, function and composition of the Audit Committee are set out in the paragraph headed "Audit Committee" of the Corporate Governance Report of this annual report.

The Company's results and the results announcement for the year ended 31 December 2021 have been reviewed by the Audit Committee. The Audit Committee of the Board is of opinion that the preparation of such financial information complied with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

## Report of the Board of Directors

### CORPORATE GOVERNANCE AND COMPLIANCE OFFICER

The Company has complied with the requirements of the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules since 8 May 2017, being the date of listing of the Company's H shares on the Stock Exchange up to 16 July 2019, and the Corporate Governance Code set out in Appendix 14 to the Listing Rules since 17 July 2019 and up to the date of this report.

The compliance officer of the Company is Ms. Bai Li, whose biographical details are set out on page 21 of this annual report.

Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of this annual report.

### SHARE OPTION SCHEME

As at the date of this report, no share option scheme has been adopted by the Company.

### EQUITY-LINKED AGREEMENTS

Save as disclosed in this report, there was no equity-linked agreement entered into by the Company during the year.

### PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the year of 2021 and up to the date of this report, at least 25% of the issued shares of the Company was held by public Shareholders.

### AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2021 have been audited by Ernst & Young, who will retire and a resolution to re-appoint Ernst & Young as auditor of the Company will be proposed at the annual general meeting of the Company.

The Company did not change its auditors in the preceding 3 years.

### EVENTS AFTER THE FINANCIAL PERIOD

After the year financial ended 31 December 2021 and up to the date of this report, there has been no significant event relevant to the business or financial performance of the Group that comes to the attention of the Directors.

On behalf of the Board

**Bo Wanlin**

*Chairman*

Hong Kong, 25 March 2022

## Report of the Board of Supervisors

The board of supervisors of the Company (the “**Board of Supervisors**”) has executed its duties earnestly, safeguarded the rights and interests of the Company and Shareholders, complied with the principle of good faith and carried out its work in a diligent and proactive manner pursuant to the provisions of the Company Law of the PRC, other relevant laws and regulations and the Articles of Association.

During the year of 2021, two meetings of the Board of Supervisors were held. The Board of Supervisors reviewed cautiously the operation and development plans of the Company and put forward reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the significant policies and specific decisions made by the management of the Company to ensure that they were in compliance with the laws and regulations of the PRC and the Articles of Association, and in the interests of the Shareholders.

The Board of Supervisors have reviewed earnestly and approved the report of the Board, audited consolidated financial statements and the dividend payment proposal to be presented by the Board at the forthcoming annual general meeting. We are of the opinion that the Board, chief executive and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association. Up to the date of this report, none of the Directors, chief executive or senior management of the Company has been found to have been in breach of any laws or regulations or the Articles of Association and damaged the interests of the Company or the Shareholders.

The Board of Supervisors is satisfied with the various tasks carried out by the Company in 2021 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

By order of the Board of Supervisors of

**Yangzhou Guangling District Taihe Rural Micro-Finance Company Limited**

**Wang Chunhong**

*Chairman of the Board of Supervisors*

Hong Kong, 25 March 2022

## Environmental, Social and Governance Report

### ABOUT THIS REPORT

This Environmental, Social and Governance report (the “**ESG Report**”) is prepared in compliance with the requirements of Appendix 27 Environmental, Social and Governance Reporting Guide (the “**ESG Reporting Guide**”) to the Rules Governing the Listing of Securities on the Stock Exchange. This ESG report intends to give insight into the approach adopted and actions taken by the Company regarding its operations and sustainability that have implication for the Company and the interest to stakeholders. The Company understands the importance of the ESG report and is committed to make continuous improvements in corporate social responsibility into its business in order to better meet the changing needs of an advancing society.

### REPORTING PERIOD AND SCOPE OF THE REPORT

This ESG Report covers the environmental and social performance within the operational boundaries of the Company that includes the Company’s offices in Yangzhou, Guangling District. The ESG Report covers the period from 1 January 2021 to 31 December 2021 (the “**Reporting Period**”).

### BOARD INVOLVEMENT AND GOVERNANCE

The Board is responsible for overseeing long-term sustainable development for the Company and its subsidiaries. Information and management on sustainability risks and performance is reported to the Board. The working groups meet regularly to exchange information and best practices, with a view to developing specific policy recommendations, reviewing progress made against ESG-related goals, improving efficiency, managing climate-related risk, reducing costs and engaging staff in sustainable development.

### STAKEHOLDER ENGAGEMENT

With the goal to strengthen the sustainability approach and performance of the Company, the Company put in tremendous effort to listen to both its internal and external stakeholders. The Company actively collects feedback from its stakeholders to maintain a high standard of sustainability within the Company, while also building a trustful and supportive relationship with them. The Company connects with its stakeholders through their preferred communication channels as listed in the table below.

## Environmental, Social and Governance Report

**Table 1. Communication with Stakeholders**

Stakeholders	Expectations and concerns	Communication Channels
Government and regulatory authorities	<ul style="list-style-type: none"> <li>- Compliance with laws and regulations</li> <li>- Support economic development</li> </ul>	<ul style="list-style-type: none"> <li>- Supervision on complying with local laws and regulations</li> <li>- Reviewing reports and taxes paid</li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>- Return on investments</li> <li>- Corporate governance</li> <li>- Business compliance</li> </ul>	<ul style="list-style-type: none"> <li>- Regular reports and announcements</li> <li>- Regular general meetings</li> <li>- Official website</li> </ul>
Employees	<ul style="list-style-type: none"> <li>- Employees' compensation and benefits</li> <li>- Career development</li> <li>- Health and safety working environment</li> </ul>	<ul style="list-style-type: none"> <li>- Performance reviews</li> <li>- Regular meetings and trainings</li> <li>- Emails, notice boards, hotline, caring activities with management</li> </ul>
Customers	<ul style="list-style-type: none"> <li>- High quality products and services</li> <li>- Protect the rights of customers</li> </ul>	<ul style="list-style-type: none"> <li>- Customer satisfaction survey</li> <li>- Face-to-face meetings and on-site visits</li> <li>- Customer service hotline and email</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>- Fair and open procurement</li> <li>- Win-win cooperation</li> </ul>	<ul style="list-style-type: none"> <li>- Open tendering</li> <li>- Suppliers' satisfactory assessment</li> <li>- Face-to-face meetings and on-site visits</li> <li>- Industry seminars</li> </ul>
General public	<ul style="list-style-type: none"> <li>- Involvement in communities</li> <li>- Business compliance</li> <li>- Environmental protection awareness</li> </ul>	<ul style="list-style-type: none"> <li>- Media conferences and responses to enquiries</li> <li>- Public welfare activities</li> <li>- Face-to-face interview</li> </ul>

# Environmental, Social and Governance Report

## Materiality Assessment

The Company undertakes annual review in identifying and understanding its stakeholders' main concerns and material interests for the ESG Report. During the Reporting Period, the Company engaged its stakeholders to conduct a materiality assessment survey. Both internal and external stakeholders were selected based on their influence and dependence on the Company. Stakeholders with high level of influence and dependence on the Company were selected by the management of the Company. The selected stakeholders were then invited to express their views and concerns on a list of sustainability issues via an online survey. As a result, the Company was able to prioritise the issues for discussion. The result from the materiality assessment survey was mapped and presented as below.

**Stakeholders Engagement Materiality Matrix**



- ◆ Environment
- Employment
- ▲ Operation
- Community

## Environmental, Social and Governance Report

1	Air and greenhouse gas emissions	11	Occupational health and safety	21	Marketing and promotion
2	Sewage treatment	12	Employee development and training	22	Observing and protecting intellectual property rights
3	Land use, pollution and restoration	13	Preventing child and forced labour	23	Product quality control and management
4	Solid waste treatment	14	Suppliers by geographical region	24	Protection of consumer information and privacy
5	Energy use	15	Selection of suppliers and assessment of their product/services	25	Labelling relating to products/services
6	Water use	16	Environmental protection assessment of the suppliers	26	Information disclosure
7	Use of other raw/ packaging materials	17	Social risks assessment of the suppliers	27	Preventing bribery, extortion, fraud and money laundering
8	Mitigation measures to protect natural resources	18	Procurement practices	28	Anti-corruption policies and whistle-blowing procedure
9	Composition of employees	19	Compliance with operation	29	Understanding local communities' need
10	Employee remuneration and benefits	20	Customers satisfaction	30	Public welfare and charity

The Company built a materiality analysis matrix and prioritised the 30 issues accordingly. With respect to this ESG Report, the Company identified health and safety relating to products/services, customer satisfaction, marketing and promotion, compliance with operation, understanding local communities' need, and protection of customer information and privacy as issues of the highest importance to its stakeholders and the Company. This review helped the Company to prioritise its corresponding sustainability issues and highlight the material and relevant aspects to align them with stakeholders' expectations.

### Stakeholders Feedback

As the Company strives for excellence, stakeholders' feedback is always welcomed, especially on topics listed as high importance in the materiality assessment. Readers are also welcome to share their views with the Company at "zyq@gltaihe.com".

### ENVIRONMENTAL SUSTAINABILITY

The Company believes saving energy is key to long-term sustainability of the environment, the community, and thus the Company's business. The Company stringently controls its emissions and consumption of resources, and complies with all relevant environmental laws and regulations in the PRC in its daily operation. All offices of the Company implemented effective energy conservation measures to reduce emissions and resource consumption.

This section primarily discloses the policies and practices of the Company on emissions, use of resources, and the environment and natural resources during the Reporting Period.

## Environmental, Social and Governance Report

### Emissions

The Company strictly adheres to emission related laws and regulations in the PRC. It is included in the Company's policy to reduce the impacts of these emissions on the environment by controlling energy consumption and reducing the Company's travel by private vehicles.

### Air Emissions & Greenhouse Gases ("GHG") Emissions

During the Reporting Period, the Company's direct emissions (Scope 1) came from the use of company vehicles. The driving of company vehicles generated air emissions and released GHG emissions.

The Company adopted policy to focus its purchase on environmentally friendly vehicles, and to lower the frequency of vehicles use in its daily operation. In addition, the Company encourages its employees to take electricity fuelled public transports when commuting for work to keep the amount of air and GHG emissions at a low level.

Meanwhile, GHG emissions were also generated through the Company's use of purchased electricity (Scope 2). Since the amount of GHG emissions indirectly emitted depends on the amount of electricity used, the Company has made it a goal to reduce electricity consumption in its daily operation. Specific measures the Company adopted to reduce electricity consumption are set out in the section headed "Use of Resources-Electricity" of this ESG Report.

In addition, small amount of GHG emissions were also generated from disposal of paper (Scope 3), which was calculated according to the purchase quantity of office paper, issuances of name cards, company letters, etc.

During the Reporting Period, the Company's GHG emissions under Scope 1 (Direct Emissions), Scope 2 (Energy Indirect Emissions), and Scope 3 (Paper Waste Indirect Emissions) were 39.5 tonnes CO<sub>2</sub>e, 57.2 tonnes CO<sub>2</sub>e and 0.3 tonnes CO<sub>2</sub>e, respectively. The Company's total GHG emissions amounted to 97 tonnes CO<sub>2</sub>e and the GHG intensity for the Company was 4.7 tonnes CO<sub>2</sub>e/employee.

### Wastewater

No hazardous wastewater was generated by the Company during the Reporting Period, as the only type of wastewater produced was domestic wastewater from its daily office operation. Domestic wastewater was directly discharged into the sewage pipe network and treated at a local municipal wastewater treatment plant. During the Reporting Period, the Company generated 0.2 tonnes of domestic wastewater. Since the amount of wastewater generated depends on the amount of water consumed, the Company has adopted specific measures to reduce the water consumption, which are further explained in the section headed "Use of Resources-Water" of this ESG Report.

### Solid Wastes

Solid wastes produced by the Company in its daily operation include only domestic solid wastes. No hazardous solid waste was generated during the Reporting Period. The Company has adopted recycling policy to require its employees to source separate and recycle recyclables such as wasted paper and canned drinks. The non-recyclables were collected and properly sent to the landfill. The Company also encourages its employees to reduce the consumption of paper and stationary in its daily operation. During the Reporting Period, the Company generated 0.5 tonnes of non-hazardous solid wastes.

During the year under review, the Company was not in violation of any relevant laws and regulations in relation to emissions, which have a significant impact on the Company.

## Environmental, Social and Governance Report

### Total Emissions of the Company

Year ended 31 December						
			2021	2020		
<i>Emissions</i>	<i>Key Performance Indicator (KPI)</i>	<i>Unit</i>	<i>Amount</i>	<i>Intensity*</i> <i>(Per employee)</i>	<i>Amount</i>	<i>Intensity*</i> <i>(Per employee)</i>
GHG emissions	Scope 1 (Direct Emission) <sup>1</sup>	Tonnes CO <sub>2</sub> e	39.5	1.9	54.0	2.2
	Scope 2 (Energy Indirect Emissions) <sup>2</sup>	Tonnes CO <sub>2</sub> e	57.2	2.8	50.3	2.0
	Scope 3 (Paper Waste Indirect Emissions) <sup>3</sup>	Tonnes CO <sub>2</sub> e	0.3	—	0.3	—
	Total (Scope 1 & 2 & 3)	Tonnes CO <sub>2</sub> e	97.0	4.7	104.6	4.2
Non-hazardous waste	Non-hazardous wastewater	Tonnes	0.2	0.01	0.2	0.01
	Non-hazardous solid waste	Tonnes	0.5	0.02	0.5	0.02

Notes:

1. GHG emissions from gasoline consumption used in automobiles are mainly measured.
  2. GHG emissions from electricity consumption are mainly measured.
  3. GHG emissions from paper and solid waste are mainly measured.
- \* Intensity = amount ÷ annual average workforce of the Company

### USE OF RESOURCES

The Company complied with the relevant laws and regulations in relation to the Company's use of resources during the year under review. Since the Company did not engage in manufacturing business, it did not have any issue in sourcing water that is fit for purpose and did not use any packaging materials. During the Reporting Period, resources used by the Company were mainly electricity, water and gasoline.

### Electricity

The Company adopts measures to save energy in its daily operation as the Company understands that the reduction in electricity consumption can reduce GHG emissions indirectly. The Company has formulated internal policies to keep the average electricity use per employee at a relatively low level with an expectation that all employees of the Company stringently comply with the Company's policy on saving energy. The Company strives to achieve its goal by educating its employees regularly about energy conservation and emission reduction.

To strengthen each individual employee's awareness on environmental protection and energy saving, the Company placed stickers "Saving electricity, switch off the light when leaving" in prominent places in the office. The Company included environmental protection topics in its regular meetings with the aim to have employees supervising themselves, and urging each other to help achieve the overall goal of the Company in terms of reducing electricity use and GHG emissions.

## Environmental, Social and Governance Report

To increase energy use efficiency and reduce emissions from our electricity and gasoline consumption, we have set the following energy use efficiency and emissions targets:

- Advocate the use of renewable energy and energy-saving and environmental protection equipment, and reduce electricity by 5% in three years compared to 2021
- Procurement of energy-saving and environmental protection equipment, energy-saving LED lamp coverage in the Company with over 90% and advocate use of environmentally friendly vehicles

All electricity consumption by the Company came directly from daily office operation. During the Reporting Period, the total electricity consumption of the Company amounted to 81,308 kWh'000. To reduce electricity consumption, the Company has implemented the following measures:

- Switch off all lights and electronic equipment in the office at the end of the day;
- Modify the set temperature of air conditioners in the office based on the season;
- Clean office equipment regularly and make sure they are working efficiently; and
- Replace office lightings with electricity saving LED lights.

### Water

We have set the following water use efficiency targets:

- Reduce water use by 5% in three years compared to 2021 through the implementation of various water conservation initiatives

The Company educated its employees on saving water during the daily working hours. During the Reporting Period, the total water consumption of the Company was 220 m<sup>3</sup>. The amount of water consumed was minimal and need-based. The policy also requests the Company's employees to change their consumption behavior including, but not limited to the followings:

- Regularly educate and promote employees to save water;
- Use water-saving taps to increase the efficiency of water usage;
- Place water saving slogans in prominent places to encourage water conservation; and
- Fix dripping taps immediately when the taps are broken.

### Gasoline

The Company owns vehicles that consume gasoline for transportation purpose. The Company encourages energy saving through simple measures, such as fully utilise the space to avoid unnecessary transport, lowering the frequency of using vehicles in its daily operation and replacing heavy-polluting vehicles with more environmental-friendly vehicles. Apart from saving energy consumed by the Company's vehicles, the Company also highly encourages its staff to take public transportation or environmental-friendly buses instead of driving to work. The Company is dedicated to reducing the GHG emissions due to transportation. During the Reporting Period, the gasoline consumed by the Company's vehicles amounted to 16,745 litres.

### Total Use of Resources by the Company

Use of Resources	Key Performance Indicator (KPI)	Unit	Year ended 31 December			
			2021		2020	
			Amount	Intensity* (Per employee)	Amount	Intensity* (Per employee)
Electricity consumption	Electricity	KWh'000	81,308	3,966.2	71,455	2,858.2
Water consumption	Water	m <sup>3</sup>	220	10.7	220	8.8
Gasoline consumption	Gasoline	L	16,745	816.8	22,900	916.0

\* Intensity = amount ÷ annual average workforce of the Company

## Environmental, Social and Governance Report

### The Environment and Natural Resources

“Protect the environment, operate in a green manner” (節約能源·綠色經營) has always been the Company’s vision for environmental protection. To firmly adhere to this vision, the Company sets a series of policies to encourage its employees to operate with a minimum impact to the environment. Since paper is the main resource used in the Company’s office, the Company has taken the following measures to reduce overall paper consumption:

- Choose more environmental friendly paper suppliers, to indirectly minimise tree loss while consuming the same amount of paper;
- Achieve paperless office, electronically distributes information (i.e. via email or e-bulletin boards) as much as possible;
- Set duplex printing as the default mode for most network printers when printing is needed;
- Promote the idea of “Think before print” by using posters and stickers in the offices to remind the staff to avoid unnecessary printing;
- Place boxes and trays beside photocopiers as containers to collect single-sided printed papers for reusing and double-sided printed papers for recycling; and
- Use the back of used single-sided documents for printing or as draft paper.

In addition, the Company requires choosing environmental-friendly vehicles when purchasing new vehicles, and encourages its employees to reduce the frequency of vehicle use, so to reduce carbon emissions. The Company will educate its employees to ensure employees are helping the Company to achieve its environmental goals.

Climate change has become an issue that all of humanity must face, and we are concerned about the impact of climate change trends and the evolution of domestic and international regulations on our business operations. We actively identify the risks and challenges posed by climate change and develop risk response actions to address the identified risks. As a responsible company, we are aware of our role in reducing energy consumption and carbon emissions, and we are taking effective measures to improve the efficiency of all energy and material use. To better manage our environmental practices and reduce the environmental impact of our operations, we closely monitor and evaluate our energy and greenhouse gas emissions performance indicators and continuously improve our energy and greenhouse gas emissions management.

### SOCIAL RESPONSIBILITIES

#### Employees

Employees are not only a component of operation, but also a foundation for establishing long term relationship with customers. Everything they carry out represents the corporate image of the Company at all times. The core duties of human resource are attracting and retaining talented employees. The Company facilitated the staff career development through comprehensive performance assessments and effective communication mechanisms, and improved the employee’s skills through staff training.

During the Reporting Period, the Company has strictly complied with applicable laws and regulations, including the Labor Law of the People’s Republic of China, the Labor Contract Law of the People’s Republic of China and Social Insurance Law of the People’s Republic of China in establishing and maintaining a safe, healthy and people-oriented office environment to guarantee employees’ interests and rights.

The Company respects gender, age and religion of every individual employee. Discrimination against individual difference between employees is strictly prohibited. The Company complied with the relevant legislations and regulations and strictly prohibited the employment of child labor or forced labor. During the Reporting Period, the Company did not employ any child labor or forced labor.

## Environmental, Social and Governance Report

### Diversity and Equal Opportunity

In order to create a healthy work culture, the Group has in place human resources policies and practices including policies on remuneration, dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. The Group's employment practices are in compliance with applicable laws and regulations.

Statistics of employee	Unit	As at 31 December 2021	As at 31 December 2020
Male employee	person	10	13
Female employee	person	10	11
<b>Total</b>	<b>person</b>	<b>20</b>	<b>24</b>
Within Jiangsu province	person	19	24
Outside Jiangsu province	person	1	—
<b>Total</b>	<b>person</b>	<b>20</b>	<b>24</b>
Contracted employee	person	20	24
Bachelor's Degree	person	12	13
Higher education	person	2	4
Below higher education (exclusive)	person	6	7
<b>Total</b>	<b>person</b>	<b>20</b>	<b>24</b>
Under 30 years old (inclusive)	person	2	6
31-40 years old	person	9	7
41-50 years old	person	7	9
Above 50 years old	person	2	2
<b>Total</b>	<b>person</b>	<b>20</b>	<b>24</b>

## Environmental, Social and Governance Report

### Environmental, Social and Governance Report

Statistics of employee turnover rate	Unit	As at 31 December 2021	As at 31 December 2020
Staff turnover	person	2	2
Staff turnover rate	%	8.7%	7.7%
Turnover rate of male employee	%	8.7%	3.8%
Turnover rate of female employee	%	—	3.8%
Turnover rate of employee under 30 years old (inclusive)	%	—	—
Turnover rate of employee between 31-40 years old	%	4.3%	3.8%
Turnover rate of employee between 41-50 years old	%	4.3%	—
Turnover rate of employee over 50 years old	%	—	3.8%
Turnover rate of employee within Jiangsu Province	%	8.7%	7.7%

### Training

The Company devotes adequate resources to staff training on professional skills, operation process, knowledge, corporate culture and morality every year in order to enhance our staff's abilities and the social influence of the Company, including staff induction trainings and several professional skill trainings after induction every year. During the Reporting Period, the Company organised staff training on law, finance, micro- credit practices, time management and etc.

Staff training	Unit	2021	2020
Total training time	hours	660	722
Training time per capita	hours	33.0	30.1
Number of senior management	person	3	4
Training time of senior management per capita	hours	33	30
Number of junior employee	person	17	24
Training time of junior employee per capita	hours	33	30.1
Number of male employee	person	10	13
Training time of male employee per capita	hours	33	31
Number of female employee	person	10	11
Training time of female employee per capita	hours	33	29

### Occupational Health and Safety

Occupational health and safety of the employees are always concerns of the Company. During the Reporting Period, the Company provided body checks for all employees and encouraged them to participate in cultural and sports activities for their health. The Company formulated regulations and organised staff training to increase their abilities of prevention from and emergency of fire, thus lowering the risk of occupational safety of the staff. During the Reporting Period, there was no work-related death or injury at the workplace.

## Environmental, Social and Governance Report

### Suppliers

The Company only has very few suppliers due to the business nature. Our suppliers are mainly located in Jiangsu Province. The Company selected a list of suppliers for office and computer equipment, stationary and promotion activities gifts. The Company has set up a procurement policy to select reliable suppliers and service providers to support its business operation. The Company takes into account the suppliers' reputation and their track record when selecting them to ensure purchased items are in compliance with national standard.

The Company has established a rigorous supply chain management system to strictly manage the procurement process and set corresponding requirements for each key procurement node in the Company's administration. The supply chain-related risks identified by the Company and the monitoring measures include:

1. Supply chain sustainability risk control: The Company has identified supply chain-related risks, such as unqualified procurement products that may affect the environment, and the risk of supply chain disruption. The Company incorporates the environmental and social risks of the supply chain and supply sustainability into the important issues of supply chain management and takes a series of effective measures to ensure the quality and stability of the supply of procured products.
2. Regular evaluation of suppliers: Through the supplier evaluation mechanism, the Company evaluates and assesses the capacity, product quality, timeliness of supply, after-sales service and environmental and social performance of suppliers, and finally selects qualified suppliers to enter the supplier list.
3. Execution of procurement activities: The standard procedures for procurement and the inspection of the quality of purchased goods as well as the evaluation of prices are clarified for the procurement staff to strictly control the risks related to procurement.

### Customers

For the purpose for improving the service quality of the Company, the Company 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 Company efficiently supports the economic development of the regions of operation and indirectly facilitates employment of those regions. Meanwhile, the Company proactively acquires customer feedbacks, including surveys and feedbacks on phone interviews.

The opinions of customers are mainly gathered by staff of each business unit. By setting procedures of customer complaints, the Company 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 Company. During the Reporting Period, the Company has not received any complaint from customers related to the service of the Company.

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

### Protection of Customer's Data

The Company handles significant amounts of personal data and credit information of customers. It has implemented rigorous policy and procedures to ensure confidentiality and privacy when collecting, processing and using customers data. As specified in the "Staff Handbook", the Company's employees are required to sign a confidentiality agreement acknowledging receipt and agreement of their obligation and responsibility regarding protection and non-disclosure of customer data. Also, access to confidential information or documents is restricted and granted on a need-to-know basis. During the reporting period, the Company has strictly complied with the Anti-Unfair Competition Law of the People's Republic of China and other applicable laws and regulations relating to health and safety, advertising, labeling and privacy matters of products and services and redress method. During the Reporting Period, the Company has not received any complaint from customers related to breach of the confidentiality of personal information.

### Anti-Corruption and Anti-Money Laundering

The Company is committed to maintain the ethics and integrity throughout its operations and does not tolerate corruption or bribery in any form, and the Company has strictly complied with "The Anti-money laundering law of the People's Republic of China" and other relevant laws and regulations relating to anticorruption, bribery, extortion, fraudulent behavior and money-laundering during the Reporting Period. The Company has established an "Anti-money Laundering Policy" with reference to the above laws and regulations which requires its business department officers to fully understand the background of potential customers through documentation and communication in accordance with relevant internal guidelines before doing business with them. The Company's risk management department also gathers information in relation to our existing customer's use of proceeds, the source of funding for repayment and the operating condition of our customers and obtains their updated status from time to time and promptly reports any abnormal situation for the purpose of risk management. The Company has included in the "Staff Handbook" a whistle-blowing policy to promote integrity and prevent unethical conducts. The Company encourages the reporting of suspected business irregularities and provides clear channels specifically for this purpose.

## Environmental, Social and Governance Report

### Rewarding the Society

The Company hopes not only to help people in need through participation in social activities, but also to cultivate employees to contribute to the community. During the Reporting Period, our employees participated in about 50 hours of community-based volunteer activities, focusing particularly on the social well-being of vulnerable and underprivileged groups, improved financial literacy, and environmental issues. The Company will continue to uphold the principle of being responsible for its customers, employees, business partners, shareholders and the society, and will seek further opportunities to develop a harmonious relationship with its stakeholders.

Number	Details	Place of Disclosure
A1.1	The types of emissions and respective emissions data.	Page 60-61
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 61
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 61
A1.5	Description of emissions target(s) set and steps taken to achieve them.	Page 60-62
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.	Page 61
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 62
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Page 62
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Page 61-63
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 62
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Page 61
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Page 60-63
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.	Page 63

## Environmental, Social and Governance Report

Number	Details	Place of Disclosure
B1.1	Total workforce by gender, employment type (for example, full- or parttime), age group and geographical region.	Page 63-64
B1.2	Employee turnover rate by gender, age group and geographical region.	Page 65
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	N/A
B2.2	Lost days due to work injury.	Page 65
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Page 65
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Page 65
B3.2	The average training hours completed per employee by gender and employee category.	Page 65
B4.1	Description of measures to review employment practices to avoid child and forced labour.	N/A
B4.2	Description of steps taken to eliminate such practices when discovered.	N/A
B5.1	Number of suppliers by geographical region.	Page 66
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 66
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Page 66
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Page 66

## Environmental, Social and Governance Report

Number	Details	Place of Disclosure
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A
B6.2	Number of products and service related complaints received and how they are dealt with.	Page 66
B6.3	Description of practices relating to observing and protecting intellectual property rights.	N/A
B6.4	Description of quality assurance process and recall procedures.	N/A
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Page 66
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.	N/A
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Page 66
B7.3	Description of anti-corruption training provided to directors and staff.	Page 66
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Page 67
B8.2	Resources contributed (e.g. money or time) to the focus area.	Page 67

## Independent Auditor's Report



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### To the shareholders of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited

(Incorporated in the People's Republic of China with limited liability)

#### OPINION

We have audited the consolidated financial statements of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 74 to 135, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") 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 International Standards on Auditing ("**ISAs**"). 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 Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants* ("**Code**"), and we have fulfilled our other ethical responsibilities in accordance with 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## Independent Auditor's Report

Key audit matter

How our audit addressed the key audit matter

### Allowance for loans receivable

The Group has adopted a forward-looking "expected loss" impairment model to recognise the expected credit losses ("ECLs") for its loans receivable. The measurement of ECLs requires the application of significant judgement and estimates which include the identification of exposures with a significant increase in credit risk, and assumptions used in the ECL models (for exposures assessed individually or collectively), such as the expected future cash flows and forward-looking macroeconomic factors. Due to the significance of the loans receivable (representing 88.79% of the total assets of the Group as at 31 December 2021) and the corresponding uncertainty inherent in such estimates, we considered this as a key audit matter.

The disclosures relating to the loans receivable and allowance for loans receivable are included in Note 4 and Note 15 to the financial statements.

We obtained an understanding of and assessed the controls over the approval, recording and monitoring of the loans receivable. We also assessed the design and execution of the key controls over the application of the impairment methodology.

For the collectively assessed ECLs, we assessed the Group's ECL models, including the model design, model input and model performance. We evaluated the Group's criteria for assessing whether there has been a significant increase in credit risk and the qualitative assessment, and we assessed the forward-looking adjustments.

For exposures that were subject to individual impairment assessment, we specifically reviewed the Group's assumptions on the expected future cash flows, valuation of underlying collateral and estimates of recoverable amounts.

We also assessed the adequacy of the disclosures relating to the loans receivable and allowance for the loans receivable.

### OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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.

## Independent Auditor's Report

### RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our 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 ISAs 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 ISAs, 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 directors.
- Conclude on the appropriateness of management's 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.

## Independent Auditor's Report

- 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to 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 Siu Fung Terence Ho.

*Ernst & Young*  
Certified Public Accountants  
27/F, One Taikoo Place  
979 King's Road  
Quarry Bay, Hong Kong  
25 March 2022

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2021

(Amounts expressed in RMB unless otherwise stated)

	Notes	Year ended 31 December	
		2021	2020
Interest income	5	60,545,780	75,462,251
Interest expense	5	(200,093)	(240,479)
Interest income, net	5	60,345,687	75,221,772
Accrual of provision for impairment losses	15/21	(46,944,460)	(15,431,869)
Accrual of provision for guarantee losses	22	452,190	(704,146)
Administrative expenses	6	(11,390,141)	(13,294,368)
Share of loss of an associate		(83,115)	—
Other revenues and other gains	7	4,127,009	3,568,761
Other expenses	8	(97,895)	(10,056)
<b>PROFIT BEFORE TAX</b>		6,409,275	49,350,094
Income tax expense	11	(1,848,387)	(12,615,459)
<b>PROFIT AFTER TAX AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		4,560,888	36,734,635
ATTRIBUTABLE TO:			
Owners of the parent		4,560,888	36,734,635
Non-controlling interests		—	—
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		0.01	0.06
Diluted		0.01	0.06

**Consolidated Statement of Financial Position**

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

	Notes	As at 31 December	
		2021	2020
<b>ASSETS</b>			
Cash and cash equivalents	14	5,608,151	803,738
Loans and accounts receivables	15	803,142,509	893,332,271
Investment in an associate	16	79,916,885	—
Goodwill	17	2,059,114	—
Intangible assets	18	22,628	—
Property and equipment	19	5,258,416	5,185,173
Deferred tax	20	6,772,583	7,910,412
Other assets	21	1,696,112	538,587
<b>TOTAL ASSETS</b>		<b>904,476,398</b>	<b>907,770,181</b>
<b>LIABILITIES</b>			
Deferred income		307,729	777,846
Income tax payable		1,841,549	13,924,780
Liabilities from guarantees	22	1,004,562	1,456,752
Lease liabilities	23	2,555,624	1,959,236
Other liabilities	24	11,041,087	6,486,608
<b>TOTAL LIABILITIES</b>		<b>16,750,551</b>	<b>24,605,222</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	25	600,000,000	600,000,000
Reserves	26	113,204,683	112,684,337
Retained earnings		174,521,164	170,480,622
Equity attributable to owners of the parent		887,725,847	883,164,959
Non-controlling interests		—	—
<b>TOTAL EQUITY</b>		<b>887,725,847</b>	<b>883,164,959</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>904,476,398</b>	<b>907,770,181</b>

**Bai Li**  
Director

**Zhou Yinqing**  
Director

## Consolidated Statement of Changes in Equity

Year ended 31 December 2021

(Amounts expressed in RMB unless otherwise stated)

	Attributable to owners of the parent					Total	Non-controlling interests	Total equity
	Reserves							
	Paid-in capital	Capital reserve	Surplus reserve	General reserve	Retained earnings			
Balance as at 1 January 2020	600,000,000	54,417,191	45,291,124	8,989,827	152,732,182	861,430,324	—	861,430,324
Profit for the year and total comprehensive income	—	—	—	—	36,734,635	36,734,635	—	36,734,635
Appropriation to surplus reserve	—	—	3,673,464	—	(3,673,464)	—	—	—
Appropriation to general reserve	—	—	—	312,731	(312,731)	—	—	—
Dividends paid	—	—	—	—	(15,000,000)	(15,000,000)	—	(15,000,000)
Balance as at 31 December 2020	600,000,000	54,417,191	48,964,588	9,302,558	170,480,622	883,164,959	—	883,164,959
Balance as at 1 January 2021	600,000,000	54,417,191	48,964,588	9,302,558	170,480,622	883,164,959	—	883,164,959
Profit for the year and total comprehensive income	—	—	—	—	4,560,888	4,560,888	—	4,560,888
Appropriation to surplus reserve	—	—	520,346	—	(520,346)	—	—	—
Balance as at 31 December 2021	600,000,000	54,417,191	49,484,934	9,302,558	174,521,164	887,725,847	—	887,725,847

## Consolidated Statement of Cash Flows

Year ended 31 December 2021  
(Amounts expressed in RMB unless otherwise stated)

	Notes	Year ended 31 December	
		2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		6,409,275	49,350,094
Adjustments for:			
Share of loss of an associate	16	83,115	—
Depreciation and amortisation	18/19	1,998,504	1,995,895
Accrual of provision for impairment losses	15/21	46,944,460	15,431,869
Accrual of provision for guarantee losses	22	(452,190)	704,146
Accreted interest on impaired loans	5	(697,110)	(1,442,867)
Net gain on disposal of property and equipment and other assets	7	(9,850)	—
Interest expense	5	200,093	240,479
Covid-19-related rent concessions from lessors		—	(12,227)
Foreign exchange loss/(gain), net		7	(63,881)
		54,476,304	66,203,508
Decrease/(Increase) in loans receivable		44,035,971	(45,081,999)
(Increase)/Decrease in other assets		(22,560)	154,669
Decrease in other liabilities		(157,497)	(1,076,129)
Net cash flows from operating activities before tax		98,332,218	20,200,049
Income tax paid		(12,793,789)	(6,687,142)
Net cash flows from operating activities		85,538,429	13,512,907
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Proceeds from acquisition of a subsidiary	27	1,037,880	—
Proceeds from disposal of property and equipment		500	—
Purchases of property and equipment and other long-term assets		(860,947)	(654,888)
Purchase of shareholdings for an associate		(80,000,000)	—
Net cash flows used in investing activities		(79,822,567)	(654,888)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Repayment of borrowings	28	(127,296)	(157,719)
Repayment of lease liabilities	28	(542,316)	(461,340)
Interest paid	28	(241,830)	(278,488)
Dividends paid	12	—	(14,936,078)
Net cash flows used in financing activities		(911,442)	(15,833,625)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		4,804,420	(2,975,606)
Cash and cash equivalents at beginning of the year		803,738	3,779,385
Effect of foreign exchange rate changes, net		(7)	(41)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	14	5,608,151	803,738

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 1. CORPORATE AND GROUP INFORMATION

Yangzhou Guangling District Taihe Rural Micro-finance Company Limited ("**Taihe Micro-credit**" or the "**Company**") was established as a limited liability company in the People's Republic of China (the "**PRC**") on 12 November 2008 based on "Su Jin Rong Ban Fa [2008] No 47" issued by the Pilot Leading Group Office for Rural Micro-finance Organisations of Jiangsu Province.

According to the resolution of the shareholders' meeting on 8 August 2012 and "Yang Fu Jin [2012] No. 77" approved by the Yangzhou Municipal Government Financial Office, the Company was converted from a limited liability company to a joint stock company on 10 August 2012. Upon its conversion, the Company issued 260 million shares at a par value of RMB1 each to its shareholders, based on the asset appraisal result of RMB300.48 million in respect of its net assets in the financial statements as at 31 July 2012.

In May 2017, the Company conducted a public offering of overseas listed foreign shares ("**H shares**"). Upon the completion of the H share offering, the issued capital was increased to RMB600 million. The Company's H shares are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange and the trading of its H shares commenced on 8 May 2017. Upon the approval of the Hong Kong Stock Exchange, the Company's H shares have been listed on the Main Board and delisted from the Growth Enterprise Market by way of Transfer of Listing since the last day of trading on 17 July 2019.

The Company obtained its business licence with Unified Social Credit No. 91321000682158920M. The legal representative of the Company is Bo Wanlin. Its registered office is located at Beizhou Road, Lidian Village, Guangling District, Yangzhou City.

The principal activities of the Company and its subsidiaries (the "**Group**") are the granting of loans to "Agriculture, Rural Areas and Farmers", the provision of financial guarantees, acting as a financial institution agent and other business.

In the opinion of the directors, the holding company and the ultimate holding company of the Group is Jiangsu Botai Group Co., Ltd., which is incorporated in the People's Republic of China.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 1. CORPORATE AND GROUP INFORMATION (continued)

#### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation, and kind of legal entity	Issued registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hainan Luhang Chelian Technology Co., Ltd (海南路航鏈車科技有限公司) *	Mainland China Corporation	RMB 100,000,000	100%	—	Internet and related services
Hainan Jialan Information Technology Co., Ltd. (海南迦藍信息技術有限責任公司) **	Mainland China Corporation	RMB 5,000,000	—	55%	Internet and related services
Shenzhen Qianhai Road Chain Car Technology Co., Ltd. (深圳前海路航鏈車科技有限公司) ***	Mainland China Corporation	RMB 1,000,000	—	55%	Internet and related services

\* The subsidiary was newly established in the year.

\*\* The subsidiary is acquired On 12 October 2021. Further details of this acquisition are included in note 27 to the financial statements.

\*\*\* The subsidiary is acquired by Hainan Jialan Information Technology Co., Ltd. on 7 June 2021.

### 2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") except when otherwise indicated.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 2. BASIS OF PREPARATION (continued)

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

The nature and the impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendment to IFRS 16 issued in March 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework<sup>1</sup></i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i>
IFRS 17	<i>Insurance Contracts<sup>2</sup></i>
Amendments to IFRS 17	<i>Insurance Contracts<sup>2,4</sup></i>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information<sup>2</sup></i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-Current<sup>2</sup></i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies<sup>2</sup></i>
Amendments to IAS 8	<i>Definition of Accounting Estimates<sup>2</sup></i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction<sup>2</sup></i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use<sup>1</sup></i>
Amendments to IAS 37	<i>Onerous Contracts - Cost of Fulfilling a Contract<sup>1</sup></i>
<i>Annual Improvements to IFRS Standards 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41 <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>3</sup> No mandatory effective date yet determined but available for adoption

<sup>4</sup> As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

*Annual Improvements to IFRS Standards 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investment in an associate.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Business combinations and goodwill (continued)**

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

##### **Revenue recognition**

###### *Interest income*

Interest income on loans is measured on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. When a loan has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash receipts for the purpose of measuring the impairment loss, i.e. the original effective interest rate.

###### *Guarantee fee income*

Revenue from the provision of guarantee services is recognised over the period of the guarantee on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

###### *Sale of goods*

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Revenue from the sale of goods is recognised when control of the goods has transferred. Control of goods refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the goods.

###### *Fees and commission income*

The fees and commission income operations from a diverse range of services the Group provides to its customers is recognised when the control of services is transferred to customers.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

##### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

##### Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Property and equipment and depreciation (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The estimated useful lives, residual rates and annual depreciation rates used for this purpose are as follows:

Categories	Estimated useful life	Estimated residual rate	Annual depreciation rate
Motor vehicles	4 to 10 years	0%	10% - 25%
Fixtures and furniture	5 to 10 years	0%	10% - 20%
Leasehold improvements	Over the shorter period of the lease terms and the useful lives of the assets		

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

##### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised on the straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The estimated useful lives of intangible assets are as follows:

Category	Estimated useful life
Software	3 years

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Leases

The Group assesses at contract inception whether a 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.

##### *As a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

##### (a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date. Right-of-use assets are depreciated on a straight-line basis over the lease terms as follows:

Buildings	1 to 5 years
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If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

##### (b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate).

##### (c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases is recognised as an expense on a straight-line basis over the lease term.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

##### **Foreign currencies**

These financial statements are presented in Renminbi ("**RMB**"), which is the Group's functional currency. Transactions in foreign currencies are initially recorded in the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investments and other financial assets

###### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investments and other financial assets (continued)

###### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

###### *Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

##### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

##### Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Impairment of financial assets (continued)

###### *General approach*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group may consider a financial asset to be in default taking into account quantitative and qualitative criteria as disclosed in Note 34. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for accounts receivable and other receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

The Company collectively assesses the impairment for financial assets classified as Stage 1 and Stage 2 by estimating the weighted average of credit loss, with the respective risks of default occurring used as weights. On the other hand, the impaired financial assets are all classified as Stage 3, for which impairments are assessed individually using discounted cash flow model.

###### *Simplified approach*

For accounts receivable that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

## Notes to Financial Statements

31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial liabilities

###### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include interest-bearing borrowings and other payables.

###### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

###### *Financial liabilities at amortised cost (loans and borrowings)*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest expense in the statement of profit or loss and other comprehensive income.

###### *Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

##### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

##### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

##### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

## Notes to Financial Statements

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(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Provisions

A provision is recognised when a present (legal or constructive) obligation has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in interest expense in the statement of profit or loss and other comprehensive income.

##### Employee benefits

###### *Employee retirement scheme*

The employees of the Group which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute a certain percentage of payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. The provision and contributions have been included in profit or loss upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

##### Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the shareholders and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Group. Dividends for the year that are approved after the end of the reporting period is disclosed as an event after the reporting period.

## Notes to Financial Statements

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(Amounts expressed in RMB unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group 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; (If the Group is itself such a plan) and the sponsoring employers of the post-employment benefit plan;
  - (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); and
  - (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 parent of the Group.

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31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### **Significant judgement in determining the lease term of contracts with renewal options**

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

#### **Impairment losses on loans receivable**

The measurement of impairment losses under IFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal rating grade model, which assigns probabilities of default to the individual grades;
- The Group's criteria for evaluating whether there has been a significant increase in credit risk and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Probability of default for loans classified in stage 1 and Stage 2 based on the repayment history and forward-looking economic indicators;
- Loss rate in the event of default based on the Company's historical loss experience on defaulted loans; and

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

#### Impairment losses on loans receivable (continued)

- Future cash flows forecast for loans classified in stage 3 based on:
  1. the financial position of the borrower and the cash flow to be recovered from the borrower's financing or operations;
  2. the ability of the guarantor and the cash flow to be recovered from performance of guarantee;
  3. the value of collateral and the cash flow to be recovered by realization of collateral;
  4. expected probability and time of recovering cash flow.

#### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was RMB2,059,114 (2020: Nil). Further details are given in note 17.

#### Deferred tax assets and liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. The Group makes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and different interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretations may arise on a wide variety of issues depending on the prevailing conditions affecting the Group.

#### Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“**IBR**”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 5. INTEREST INCOME, NET

	Year ended 31 December	
	2021	2020
Interest income on:		
Loans receivable	60,536,920	75,452,146
Cash at banks	8,860	10,105
Subtotal	60,545,780	75,462,251
Interest expense on:		
Lease liabilities	(197,069)	(228,470)
Borrowings from other institutions	(3,024)	(12,009)
Subtotal	(200,093)	(240,479)
Interest income, net	60,345,687	75,221,772
Included: Interest income from impaired loans (Note 15)	697,110	1,442,867

### 6. ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2021	2020
Staff costs	3,924,896	3,920,430
Tax and surcharges	357,258	781,364
Depreciation and amortisation (Notes 18/19)	1,998,504	1,995,895
Auditor's remuneration	1,603,774	1,603,774
Office expenses	118,246	90,173
Entertainment expenses	703,556	1,564,153
Service fee	1,871,784	2,182,425
Others	812,123	1,156,154
Total	11,390,141	13,294,368

**Notes to Financial Statements**

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

## 7. OTHER REVENUES AND OTHER GAINS

	Year ended 31 December	
	2021	2020
Guarantee fee income	1,808,985	1,591,869
Government grants	2,050,100	1,814,665
Fees and commission income	217,500	—
Sale of goods	36,196	—
Gain on disposal of fixed assets	9,850	—
Others	4,378	162,227
<b>Total</b>	<b>4,127,009</b>	<b>3,568,761</b>

## 8. OTHER EXPENSES

	Year ended 31 December	
	2021	2020
Foreign exchange gain or loss	7	(64,086)
Fees and commission expenses	59,043	23,842
Cost of sales	19,502	—
Others	19,343	50,300
<b>Total</b>	<b>97,895</b>	<b>10,056</b>

## Notes to Financial Statements

31 December 2021

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### 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Year ended 31 December 2021					
Name	Position	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
Mr. Bo Wanlin	Executive director	—	—	—	—
Ms. Bai Li	Executive director and chief executive	—	300,000	86,308	386,308
Ms. Zhou Yinqing	Executive director	—	240,000	83,318	323,318
Mr. Bo Nianbin	Non-executive director	—	—	—	—
Mr. Zuo Yuchao	Non-executive director	—	—	—	—
Mr. Chan So Kuen	Non-executive director	—	98,927	—	98,927
Mr. Wu Xiankun	Non-executive director	—	20,000	—	20,000
Mr. Bao Zhenqiang	Non-executive director	—	20,000	—	20,000
Mr. Zhang Yi	Supervisor	—	250,467	34,734	285,201
Ms. Wang Chunhong	Supervisor	—	20,000	—	20,000
Ms. Li Guoyan	Supervisor	—	20,000	—	20,000
		—	969,394	204,360	1,173,754

Year ended 31 December 2020					
Name	Position	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
Mr. Bo Wanlin	Executive director	—	500,000	—	500,000
Ms. Bai Li	Executive director and chief executive	—	300,000	41,593	341,593
Ms. Zhou Yinqing	Executive director	—	240,000	39,593	279,593
Mr. Bo Nianbin	Non-executive director	—	—	—	—
Mr. Zuo Yuchao	Non-executive director	—	—	—	—
Mr. Chan So Kuen	Non-executive director	—	107,545	—	107,545
Mr. Wu Xiankun	Non-executive director	—	20,000	—	20,000
Mr. Bao Zhenqiang	Non-executive director	—	20,000	—	20,000
Mr. Zhang Yi	Supervisor	—	190,281	18,858	209,139
Ms. Wang Chunhong	Supervisor	—	20,000	—	20,000
Ms. Li Guoyan	Supervisor	—	20,000	—	20,000
		—	1,417,826	100,044	1,517,870

**Notes to Financial Statements**

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)***9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION** (continued)

No director, supervisor or senior management staff has waived or agreed to waive any emoluments for the year ended 31 December 2021.

During the year, there was no amount paid or payable by the Company to the directors or the supervisors as discretionary bonuses.

During the year, there was no amount paid or payable by the Company to the directors, the supervisors, senior management or any of the five highest paid individuals set out in Note 10 below as an inducement to join or upon joining the Group or as compensation for loss of office.

**10. FIVE HIGHEST PAID INDIVIDUALS**

Three directors (one was also the chief executive) were amongst the five highest paid individuals during the year (2020: four directors (one was also the chief executive)), details of whose remuneration are set out in Note 9 above. Details of the remuneration of the remaining two (2020: one) highest paid employees for the year who is neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2021	2020
Salaries, allowances and benefits in kind	302,917	240,000
Pension scheme contributions	61,122	39,593
	364,039	279,593

The number of non-director and non-chief executive highest paid employees, whose remuneration fell within the following band, is as follows:

	Year ended 31 December	
	2021	2020
Nil – RMB1,000,000	2	1

## Notes to Financial Statements

31 December 2021

*(Amounts expressed in RMB unless otherwise stated)*

### 11. INCOME TAX EXPENSE

	Year ended 31 December	
	2021	2020
Current income tax	710,558	12,699,600
Deferred income tax (Note 20)	1,137,829	(84,141)
	1,848,387	12,615,459

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December	
	2021	2020
Profit before tax	6,409,275	49,350,094
Tax at the applicable tax rate	1,602,319	12,337,524
Share of loss of an associate	20,779	—
Expenses not deductible for tax	64,646	277,935
Deductible loss of unrecognised deferred income tax assets	160,643	—
Total tax expense for the year at the Group's effective tax rate	1,848,387	12,615,459

### 12. DIVIDENDS

	Year ended 31 December	
	2021	2020
Declared and paid dividends	—	15,000,000

**Notes to Financial Statements**

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*(Amounts expressed in RMB unless otherwise stated)***13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

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

	Year ended 31 December	
	2021	2020
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	4,560,888	36,734,635
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (i)	600,000,000	600,000,000
Basic and diluted earnings per share	0.01	0.06

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

	Year ended 31 December	
	2021	2020
Issued ordinary shares at the beginning of the year	600,000,000	600,000,000
Weighted average number of ordinary shares at the end of the year	600,000,000	600,000,000

There were no dilutive potential ordinary shares during the reporting period, and therefore, the diluted earnings per share amount is the same as the basic earnings per share amount.

**14. CASH AND CASH EQUIVALENTS**

	31 December	
	2021	2020
Cash from a third party	76,890	236
Cash at banks	5,531,261	803,502
	5,608,151	803,738

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to RMB5,607,819 (As at 31 December 2020: RMB 803,018).

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### 15. LOANS AND ACCOUNTS RECEIVABLES

	31 December	
	2021	2020
Guaranteed loans	831,587,137	894,743,515
Collateral-backed loans	4,683,565	35,716,030
Unsecured loans	1,621,979	2,219,007
Loans receivable	837,892,681	932,678,552
Less: Allowance for impairment losses	34,847,821	39,346,281
Net loans receivable	803,044,860	893,332,271
Accounts receivable	100,060	—
Less: Allowance for impairment losses	2,411	—
Net accounts receivable	97,649	—
Total of loans and accounts receivables	803,142,509	893,332,271

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system (Five-tier Principle) and year-end staging classification.

Internal rating grades	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Normal	792,501,256	—	—	792,501,256
Special mention	—	12,477,113	—	12,477,113
Sub-standard	—	—	28,413,437	28,413,437
Doubtful	—	—	2,251,019	2,251,019
Loss	—	—	2,249,856	2,249,856
Total	792,501,256	12,477,113	32,914,312	837,892,681

Internal rating grades	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Normal	905,290,855	—	—	905,290,855
Special mention	—	—	—	—
Sub-standard	—	—	1,102,411	1,102,411
Doubtful	—	—	20,244,726	20,244,726
Loss	—	—	6,040,560	6,040,560
Total	905,290,855	—	27,387,697	932,678,552

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(Amounts expressed in RMB unless otherwise stated)

### 15. LOANS AND ACCOUNTS RECEIVABLES (continued)

An analysis of changes in the outstanding exposures is as follows:

	Stage 1 (12-month ECLs)	Stage 2 (Lifetime ECLs)	Stage 3 (Lifetime ECLs – impaired)	Total
Outstanding exposure as at 31 December 2020	905,290,855	—	27,387,697	932,678,552
New exposures	794,397,111	—	—	794,397,111
Exposure derecognised	(834,122,090)	—	(4,310,992)	(838,433,082)
Transfers to Stage 2	(14,500,318)	14,500,318	—	—
Transfers to Stage 3	(58,564,302)	(2,023,205)	60,587,507	—
Amounts written off	—	—	(50,749,900)	(50,749,900)
At 31 December 2021	792,501,256	12,477,113	32,914,312	837,892,681

	Stage 1 (12-month ECLs)	Stage 2 (Lifetime ECLs)	Stage 3 (Lifetime ECLs – impaired)	Total
Outstanding exposure as at 31 December 2019	856,766,734	15,140,518	29,708,100	901,615,352
New exposures	905,642,700	—	—	905,642,700
Exposure derecognised	(854,730,249)	(3,193,252)	(3,069,800)	(860,993,301)
Transfers to Stage 2	(351,845)	351,845	—	—
Transfers to Stage 3	(2,036,485)	(12,299,111)	14,335,596	—
Amounts written off	—	—	(13,586,199)	(13,586,199)
At 31 December 2020	905,290,855	—	27,387,697	932,678,552

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31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 15. LOANS AND ACCOUNTS RECEIVABLES (continued)

An analysis of changes of the corresponding expected credit losses ("ECLs") is as follows:

	Stage 1 (12-month ECLs)	Stage 2 (Lifetime ECLs)	Stage 3 (Lifetime ECLs – impaired)	Total ECL allowance
ECLs as at 31 December 2020	20,589,922	—	18,756,359	39,346,281
Net charge of the impairment	212,121	1,192,761	45,543,668	46,948,550
Transfers to Stage 2	(332,636)	332,636	—	—
Transfers to Stage 3	(1,331,985)	(212,836)	1,544,821	—
Accreted interest on impaired loans (Note 5)	—	—	(697,110)	(697,110)
Amounts written off	—	—	(50,749,900)	(50,749,900)
At 31 December 2021	19,137,422	1,312,561	14,397,838	34,847,821

	Stage 1 (12-month ECLs)	Stage 2 (Lifetime ECLs)	Stage 3 (Lifetime ECLs – impaired)	Total ECL allowance
ECLs as at 31 December 2019	18,911,860	1,554,293	18,457,477	38,923,630
Net charge/(reversal) of the impairment	1,730,906	(282,662)	14,003,473	15,451,717
Transfers to Stage 2	(7,766)	7,766	—	—
Transfers to Stage 3	(45,078)	(1,279,397)	1,324,475	—
Accreted interest on impaired loans (Note 5)	—	—	(1,442,867)	(1,442,867)
Amounts written off	—	—	(13,586,199)	(13,586,199)
At 31 December 2020	20,589,922	—	18,756,359	39,346,281

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31 December 2021

(Amounts expressed in RMB unless otherwise stated)

### 15. LOANS AND ACCOUNTS RECEIVABLES (continued)

Movement in impairment of accounts receivables:

	31 December	
	2021	2020
At beginning of year	—	—
Charge for the year	2,411	—
At end of year	2,411	—

### 16. INVESTMENT IN AN ASSOCIATE

	31 December	
	2021	2020
Share of net assets	79,916,885	—
	79,916,885	—

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Jiangsu Interactive Photosensitive IoT Technology Co., Ltd. (江蘇互動感光物聯科技有限公司)	Ordinary shares	PRC/Mainland China	40%	Technology promotion and application service industry

Jiangsu Interactive Photosensitive IoT Technology Co., Ltd., which is engaged in the development of technologies, products and solutions in relation to artificial intelligence and internet of things and promoting the applicability of such technologies, products and solutions, is established in 2021 and is accounted for using the equity method.

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### 16. INVESTMENT IN AN ASSOCIATE (continued)

The following table illustrates the summarised financial information in respect of Jiangsu Interactive Photosensitive IoT Technology Co., Ltd. adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	As at 31 December 2021
Current assets	199,812,212
Non-current assets	—
Current liabilities	(20,000)
Non-current liabilities	—
<b>Net assets</b>	<b>199,792,212</b>
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	40%
Group's share of net assets of the associate	79,916,885
Carrying amount of the investment	79,916,885
Revenue	—
Loss after tax and total comprehensive loss for the year	(207,788)
Dividend received	—

### 17. GOODWILL

Cost at 1 January 2021, net of accumulated impairment	—
Acquisition of a subsidiary (note 27)	2,059,114
<b>Cost and net carrying amount at 31 December 2021</b>	<b>2,059,114</b>
At 31 December 2021:	
Cost	2,059,114
Accumulated impairment	—
<b>Net Carrying amount</b>	<b>2,059,114</b>

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## 18. INTANGIBLE ASSETS

	Software	Total
Cost:		
At 1 January 2021	—	—
Acquisition of a subsidiary (note 27)	26,100	26,100
At 31 December 2021	26,100	26,100
Accumulated amortisation:		
At 1 January 2021	—	—
Amortisation provided during the year	1,389	1,389
Acquisition of a subsidiary (note 27)	2,083	2,083
At 31 December 2021	3,472	3,472
Net carrying amount		
At 1 January 2021	—	—
At 31 December 2021	22,628	22,628

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### 19. PROPERTY AND EQUIPMENT

	Motor vehicles	Fixtures and furniture	Leasehold improvements	Right-of-use assets	Total
Cost:					
At 1 January 2020	2,025,634	1,391,958	10,537,519	2,626,966	16,582,077
Additions	—	83,526	638,806	181,406	903,738
Deductions	—	—	(636,600)	(52,834)	(689,434)
At 31 December 2020	2,025,634	1,475,484	10,539,725	2,755,538	16,796,381
Additions	293,009	361,410	170,709	14,150	839,278
Acquisition of a subsidiary (note 27)	—	67,241	—	1,367,408	1,434,649
Deductions	(113,757)	—	—	(181,406)	(295,163)
At 31 December 2021	2,204,886	1,904,135	10,710,434	3,955,690	18,775,145
Accumulated depreciation:					
At 1 January 2020	1,097,006	735,377	7,916,681	555,683	10,304,747
Depreciation charge for the year	477,969	179,339	784,548	554,039	1,995,895
Deductions	—	—	(636,600)	(52,834)	(689,434)
At 31 December 2020	1,574,975	914,716	8,064,629	1,056,888	11,611,208
Depreciation charge for the year	347,545	236,996	789,728	622,846	1,997,115
Acquisition of a subsidiary (note 27)	—	1,608	—	74,927	76,535
Deductions	(113,757)	—	—	(54,372)	(168,129)
At 31 December 2021	1,808,763	1,153,320	8,854,357	1,700,289	13,516,729
Net carrying amount:					
At 31 December 2020	450,659	560,768	2,475,096	1,698,650	5,185,173
At 31 December 2021	396,123	750,815	1,856,077	2,255,401	5,258,416

As at 31 December 2021, none of the Group's property and equipment was pledged to secure the instalment loan payable of the Group (As at 31 December 2020: RMB328,153).

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## 20. DEFERRED TAX

**(a) Analysed by nature**

	31 December			
	2021		2020	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Impairment allowance	26,492,909	6,623,227	30,157,361	7,539,340
Liabilities from guarantees	1,004,562	251,141	1,456,752	364,189
Deferred income	307,729	76,932	777,846	194,461
Leases	291,598	72,900	103,600	25,900
Depreciation	(1,006,466)	(251,617)	(853,912)	(213,478)
Deferred income tax	27,090,332	6,772,583	31,641,647	7,910,412

**(b) Movements of deferred tax assets and liabilities**Deferred tax assets

	Impairment allowance	Liabilities from guarantees	Deferred income	Others	Total
At 1 January 2020	7,703,944	188,152	169,551	42,303	8,103,950
Recognised in profit or loss	(164,604)	176,037	24,910	(16,403)	19,940
At 31 December 2020	7,539,340	364,189	194,461	25,900	8,123,890
Recognised in profit or loss	(916,113)	(113,048)	(117,529)	47,000	(1,099,690)
At 31 December 2021	6,623,227	251,141	76,932	72,900	7,024,200

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## 20. DEFERRED TAX (continued)

**(b) Movements of deferred tax assets and liabilities (continued)**Deferred tax liabilities

	Depreciation of property and equipment
At 1 January 2020	(277,679)
Recognised in profit or loss	64,201
At 31 December 2020	(213,478)
Recognised in profit or loss	(38,139)
At 31 December 2021	(251,617)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December 2021	As at 31 December 2020
Net deferred tax assets recognised in the statement of financial position (Note 11)	(1,137,829)	84,141

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## 21. OTHER ASSETS

	Note	31 December	
		2021	2020
Inventory		174,544	—
Prepayments		339,929	45,550
Other receivables		754,916	174,075
Repossessed asset	(i)	432,600	432,600
Less: Allowance for doubtful debts		5,877	113,638
		1,696,112	538,587

Note:

- (i) The repossessed asset is a property located at Yangzhou City, Jiangsu Province in the PRC. The Group has made the deal of disposing of the repossessed asset in December 2021 by auction and will hold the repossessed asset until the transfer registration has been completed.

Movements of allowance for doubtful debts are as follows:

	31 December	
	2021	2020
As at 1 January	113,638	881,972
Charge for the year	(6,501)	(19,848)
Amount written off as uncollectible	(101,260)	(748,486)
As at 31 December	5,877	113,638

As comparable companies with credit ratings for most of the counterparties are hard to identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group based on an ageing analysis of other receivables. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

## Notes to Financial Statements

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(Amounts expressed in RMB unless otherwise stated)

### 21. OTHER ASSETS (continued)

Set out below are the maximum exposure to credit risk and expected credit losses on other receivables based on the ageing analysis.

Ageing analysis	31 December 2021			
	Gross carrying amount		Expected credit loss	
	Amount	Percentage	Amount	Expected credit loss rate
Up to 90 days	749,039	99.22%	—	0.00%
91 to 365 days	—	—	—	0.00%
Over 365 days	5,877	0.78%	5,877	100.00%
<b>Total</b>	<b>754,916</b>	<b>100.00%</b>	<b>5,877</b>	<b>0.78%</b>

Ageing analysis	31 December 2020			
	Gross carrying amount		Expected credit loss	
	Amount	Percentage	Amount	Expected credit loss rate
Up to 90 days	4,500	2.58%	—	0.00%
91 to 365 days	94,343	54.20%	38,406	40.71%
Over 365 days	75,232	43.22%	75,232	100.00%
<b>Total</b>	<b>174,075</b>	<b>100.00%</b>	<b>113,638</b>	<b>65.28%</b>

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### 22. LIABILITIES FROM GUARANTEES

Liabilities from guarantees are provisions made for the guarantees. The table below shows the changes in the expected credit losses ("**ECLs**") for the outstanding exposure of guarantees.

	Stage 1 (12-month ECLs) Collectively assessed	Total
ECLs as at 31 December 2019	752,606	752,606
New exposure	1,456,752	1,456,752
Exposure derecognised	(752,606)	(752,606)
At 31 December 2020	1,456,752	1,456,752
New exposure	1,004,562	1,004,562
Exposure derecognised	(1,456,752)	(1,456,752)
At 31 December 2021	1,004,562	1,004,562

### 23. LEASE LIABILITIES

The carrying amount of lease liabilities and the movements during the year are as follows:

	31 December	
	2021	2020
Carrying amount at 1 January	1,959,236	2,289,406
Additions as a result of acquisition of a subsidiary (Note 27)	1,302,685	—
New leases	—	181,406
Adjustment of fixed payment amount	(122,244)	—
Accretion of interest recognised during the year	197,069	228,470
Covid-19-related rent concessions from lessors	—	(12,227)
Payments	(781,122)	(727,819)
	2,555,624	1,959,236

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### 24. OTHER LIABILITIES

	31 December	
	2021	2020
Payrolls payable	978,075	582,298
Instalment loan payable	—	127,296
Other tax payables	666,451	857,891
Other payables	9,396,561	4,919,123
	11,041,087	6,486,608

### 25. SHARE CAPITAL

	31 December	
	2021	2020
Issued and fully paid	600,000,000	600,000,000

There were no movements during the year of 2021 (2020: There were no movements).

### 26. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in consolidated the statement of changes in equity.

#### Capital reserve

The capital reserve comprises share premium arising from the difference between the par value of the shares issued by the Company and the net asset value in the financial statements as at 31 July 2012 during the process of conversion of the Company into a joint stock company and the difference between the par value of the shares of the Company and the proceeds received from the issuance of the shares of the Company.

#### Surplus reserve

The surplus reserve represents the statutory surplus reserve.

The Company and its subsidiaries are required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles of Association of the Company to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

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### 26. RESERVES (continued)

#### General reserve

According to the <Financial regulations of micro-finance rural companies in Jiangsu (Trial)> (Su Cai Gui [2009] No.1), the Company is required to set aside a general reserve which is not less than 1% of the ending balance of loans receivable through equity.

### 27. BUSINESS COMBINATION

On 12 October 2021, the Group acquired a 55% interest in Hainan Jialan Information Technology Co., Ltd. which is engaged in internet and related services. The purchase consideration for the acquisition was in the form of cash, with RMB2,000,000 paid in November 2021.

The fair values of the identifiable assets and liabilities of Hainan Jialan Information Technology Co., Ltd. as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition
Cash and cash equivalents		3,037,880
Accounts receivable		117,221
Property and equipment	19	1,358,114
Goodwill	17	937,936
Intangible assets	18	24,017
Other assets		1,075,494
Lease liabilities	23	(1,302,685)
Other liabilities		(4,369,155)
Total identifiable net assets at fair value		878,822
Non-controlling interests*		—
Goodwill on acquisition	17	1,121,178
Satisfied by cash		2,000,000

\* The Company exercises its voting right at the shareholders' meetings and is distributed with the dividends based on the percentage of actual capital contribution. As at 31 December 2021, The non-controlling shareholder of Hainan Jialan Information Technology Company Limited has not yet made any capital contribution.

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### 27. BUSINESS COMBINATION (continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	Fair value recognised on acquisition
Cash consideration	(2,000,000)
Cash and bank balances acquired	3,037,880
Net inflow of cash and cash equivalents Included in cash flows from investing activities	1,037,880

Since the acquisition, Hainan Jialan Information Technology Co., Ltd. and its subsidiaries contributed RMB253,696 to the Group's other revenues and caused a net loss of RMB642,573 to the consolidated profit for the year ended 31 December 2021.

### 28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### (a) Changes in liabilities arising from financing activities are as follows:

	Borrowings from other institutions	Lease liabilities	Total
At 1 January 2020	285,015	2,289,406	2,574,421
New leases	—	181,406	181,406
Repayment of the instalment loan	(157,719)	—	(157,719)
Repayment of lease liabilities	—	(461,340)	(461,340)
Interest expense	12,009	228,470	240,479
Repayment of interest expense	(12,009)	(266,479)	(278,488)
Covid-19-related rent concessions from lessors	—	(12,227)	(12,227)
At 31 December 2020	127,296	1,959,236	2,086,532
New leases	—	—	—
Additions as a result of acquisition of a subsidiary	—	1,302,685	1,302,685
Adjustment of fixed payment amount	—	(122,244)	(122,244)
Repayment of the instalment loan	(127,296)	—	(127,296)
Repayment of lease liabilities	—	(542,316)	(542,316)
Interest expense	3,024	197,069	200,093
Repayment of interest expense	(3,024)	(238,806)	(241,830)
At 31 December 2021	—	2,555,624	2,555,624

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## 28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

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

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021	2020
Within financing activities	781,122	727,819
	781,122	727,819

## 29. RELATED PARTY TRANSACTIONS

**(a) Leasing**

	Note	Year ended 31 December	
		2021	2020
Depreciation of right-of-use assets	(i)	519,535	516,237
Interest expense on lease liabilities	(i)	159,833	212,295

Note:

- (i) The Group entered into a lease contract in respect of the Group's office with an entity with significant influence over the Group. As at 28 November 2017, the Group agreed with the lessor and renewed the lease contract. The leasing period was from 1 January 2018 to 31 December 2020. In January 2021, the Group has agreed with the lessor and renewed the lease contract. The leasing period is from 1 January 2021 to 31 December 2023.

The depreciation of right-of-use assets and interest expense on lease liabilities for the year ended 31 December 2021 were RMB519,535 (2020: RMB516,237) and RMB159,833 (2020: RMB212,295), respectively.

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### 29. RELATED PARTY TRANSACTIONS (continued)

#### (b) Key management personnel's remuneration

	Year ended 31 December	
	2021	2020
Key management personnel's remuneration	1,089,394	1,657,826

The remuneration for key management personnel includes amounts paid to certain directors and the chief executive of the Company as disclosed in Note 9.

#### (c) Outstanding balances with related parties

Amounts due to related parties	Note	Year ended 31 December	
		2021	2020
Entity with significant influence over the Group:			
Liantai Guangchang	(i)	1,318,466	1,811,150
Total		1,318,466	1,811,150

Note:

- (i) As at 31 December 2021, the outstanding balance of the Group's lease liability due to Jiangsu Liantai Fashion Shopping Mall Real Estate Co., Ltd. ("**Liantai Guangchang**") was RMB1,318,466 (as at 31 December 2020: RMB1,811,150).

### 30. SEGMENT INFORMATION

Almost all of the Group's revenue was generated from the provision of loans to small and medium-sized and micro enterprises ("**SMEs**") located at Yangzhou, Jiangsu Province in the PRC during the reporting period. There is no other main segment except for the loan business.

### 31. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the consolidated financial statements were as follows:

	31 December	
	2021	2020
Financial guarantee contracts	41,600,000	64,050,000

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*(Amounts expressed in RMB unless otherwise stated)***32. COMMITMENTS**

The Group had the following capital commitments at the end of the reporting period:

	As at 31 December 2021	As at 31 December 2020
Investment commitments	—	2,000,000
	—	2,000,000

**33. FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	31 December	
	2021	2020
Financial assets		
Financial assets at amortised cost		
– Cash at banks and from a third party	5,608,151	803,738
– Loans and accounts receivables	803,142,509	893,332,271
– Other receivables	749,039	60,436
	809,499,699	894,196,445

	31 December	
	2021	2020
Financial liabilities		
Financial liabilities at amortised cost		
– Other payables	5,236,880	886,738
– Lease liabilities	2,555,624	1,959,236
	7,792,504	2,845,974

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### 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The main risks arising from the Group's financial instruments include credit risk, foreign currency risk, interest rate risk and liquidity risk. The Group has no significant exposures to other financial risks except for those disclosed below. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

#### (a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. The Group manages the loans granted to SMEs, micro-enterprises and individual proprietors with the same rules and procedures. There is also credit risk in off-balance sheet financial instruments, which mainly consist of financial guarantees.

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures; and
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit assessment, the granting of credit limit, loan evaluation, loan review and approval, the granting of loans and post-disbursement loan monitoring;

A loan classification approach has been adopted to manage loan portfolio risk. The loans are categorised as "normal", "special-mention", "substandard", "doubtful" or "loss" according to their levels of risk. The core definitions of the five categories of loans receivable are set out below:

- Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.
- Special mention: borrowers are currently able to service their loans and interest, though repayment may be adversely affected by specific factors.
- Substandard: borrowers' ability to service their loans is in question and borrowers cannot rely entirely on normal business revenues to repay the principal and interest. Losses may ensue even when collateral items or guarantees are invoked.
- Doubtful: borrowers cannot repay the principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
- Loss: principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

To enhance the credit risk management practices, the Group also launches training programmes periodically for credit officers at different levels.

Financial guarantees carry similar credit risk to loans and the Group takes a similar approach on risk management.

The Group's financial assets include cash at banks, loans receivable, accounts receivable and other receivables. The credit risk of these assets mainly arose from the counterparties' failure to discharge their contractual obligations, with major exposure equal to the carrying amounts.

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### 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### (a) Credit risk (continued)

##### **Credit risk measurement**

The Group conducted an assessment of ECLs according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and debtor's creditworthiness (e.g., the likelihood of default by debtors and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECLs according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of a credit-impaired financial asset
- Parameters for measuring ECLs
- Forward-looking information

##### ***Criteria for judging significant increases in credit risk***

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, internal rating grade, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of each reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

##### *Quantitative criteria*

- At the reporting date, the increase in the remaining lifetime probability of default is considered significant comparing with the one at initial recognition.

##### *Qualitative criteria*

- Significant adverse change in the debtor's operation or financial status
- Be classified into the special mention category within the five-tier loan classification

##### *Backstop criteria*

- The debtor's contractual payments (including principal and interest) are more than 30 days past due.

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### 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### (a) Credit risk (continued)

##### **Credit risk measurement (continued)**

##### ***Definition of credit-impaired financial asset***

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether a credit impairment of a debtor has occurred, the following factors are mainly considered:

- Significant financial difficulty of the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest, or principal payments are overdue; and
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;

The credit impairment of a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

##### ***Parameters of ECL measurement***

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECLs of 12 months or the entire lifetime. The key measuring parameters of ECLs include the probability of PD, LGD and EAD. The Group takes into account the quantitative analysis of historical statistics (such as the internal rating grade, manners of guarantees and types of collateral and repayments) and forward-looking information in order to establish the models of PD, LGD and EAD.

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the internal rating grade, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of the counterparty, the method and priority of the recourse, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime; and
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

##### ***Forward-looking information***

The assessment of both a significant increase in credit risk and the calculation of ECLs involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECLs, such as GDP growth, Central Bank base rates and price indices.

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### 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### (a) Credit risk (continued)

##### Collateral and other credit enhancements

The Group implements guidelines on the acceptability of specific classes of collateral from customers. The principal collateral types for loans to customers are:

- Real estate, including residential and commercial properties; and
- Equipment.

The Group also focuses on ascertaining legal ownership, condition and the valuation of the collateral. A collateral-backed loan is granted on the basis of the fair value of the collateral. The Group continues to monitor the value of the collateral throughout the loan period.

The following table sets out a breakdown of the Group's overdue loans by security as of the dates indicated:

At 31 December 2021	Overdue within 3 months	Overdue for more than 3 to 12 months	Overdue for more than 1 year	Total
Guaranteed loans	21,337,880	20,249,705	249,856	41,837,441
Collateral-backed loans	—	2,888,682	338,268	3,226,950
Unsecured loans	—	126,301	—	126,301
	21,337,880	23,264,688	588,124	45,190,692

At 31 December 2020	Overdue within 3 months	Overdue for more than 3 to 12 months	Overdue for more than 1 year	Total
Guaranteed loans	—	253,776	14,778,960	15,032,736
Collateral-backed loans	101,845	1,996,790	10,256,326	12,354,961
	101,845	2,250,566	25,035,286	27,387,697

##### Analysis of risk concentration

The Group manages its exposure to the concentration of credit risk by analysis by customer, geographic region and industry. The customers of the Group are located mainly in rural areas, and they are concentrated in a geographic region, Yangzhou, but the Group provides loans to a wide variety of customers that operate in different industries to mitigate its exposure to such risks. Given the regulatory restriction on the Group's geographical area of operation, there is credit risk arising from the geographic concentration.

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### 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### (a) Credit risk (continued)

##### Write-off policy

The Group writes off loans, accounts and other receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Factors indicating that there is no reasonable expectation of recovery include bankruptcy, termination or the expected cost being significantly greater than the carrying amount of loans, accounts and other receivables. The Group may write off loans, trade and other receivables that are still subject to enforcement activity.

#### (b) Foreign currency risk

The Group operates principally in Mainland China with only limited exposure to foreign exchange rate risk arising primarily from certain bank deposits denominated in HKD.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets).

	31 December	
	2021 Impact on profit before tax	2020 Impact on profit before tax
Changes in the HKD exchange rate		
+5%	17	36
-5%	(17)	(36)

#### (c) Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its cash at banks, loans receivable and interest-bearing borrowings. All of the Group's loans receivable bear interest at fixed rates. They are much influenced by the mismatch of repricing days of interest-generating assets and interest-bearing liabilities. The Group does not use derivative financial instruments to manage its interest rate risk.

The following table demonstrates the sensitivity as at the end of each reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on the floating rate of cash at banks and cash from a third party). The Group's equity is not affected, other than the consequential effect on retained earnings (a component of the Group's equity) affected by the changes in profit before tax.

	31 December	
	2021 Impact on profit before tax	2020 Impact on profit before tax
Changes in RMB interest rate		
+50 basis points	28,041	4,019
-50 basis points	(28,041)	(4,019)

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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

**(d) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group seeks to manage its liquidity risk by circulating liquidity facilities, considering the maturity date of financial instruments and estimated cash flows from operation.

The tables below summarise the maturity profiles of the financial assets and financial liabilities of the Group based on undiscounted contractual cash flows:

	As at 31 December 2021					
	On demand	Past due	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial assets:						
Cash at banks and from a third party	5,608,151	—	—	—	—	5,608,151
Loans and accounts receivables	—	45,190,692	109,588,951	719,165,771	3,205	873,948,619
Other assets	754,916	—	—	—	—	754,916
Subtotal	6,363,067	45,190,692	109,588,951	719,165,771	3,205	880,311,686
Financial liabilities:						
Other liabilities	—	—	2,136,880	3,100,000	—	5,236,880
Lease liabilities	—	—	135,000	1,105,000	1,635,000	2,875,000
Subtotal	—	—	2,271,880	4,205,000	1,635,000	8,111,880
Net	6,363,067	45,190,692	107,317,071	714,960,771	(1,631,795)	872,199,806
Off-balance sheet guarantee	—	—	30,200,000	11,400,000	—	41,600,000

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### 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### (d) Liquidity risk (continued)

	As at 31 December 2020					Total
	On demand	Past due	Less than 3 months	3 to 12 months	1 to 5 years	
Financial assets:						
Cash at banks and from a third party	803,738	—	—	—	—	803,738
Loans and accounts receivables	—	27,387,697	114,361,943	839,963,526	299,806	982,012,972
Other assets	174,074	—	—	—	—	174,074
<b>Subtotal</b>	<b>977,812</b>	<b>27,387,697</b>	<b>114,361,943</b>	<b>839,963,526</b>	<b>299,806</b>	<b>982,990,784</b>
Financial liabilities:						
Other liabilities	1,800	—	796,810	91,152	—	889,762
Lease liabilities	—	—	—	661,500	1,619,518	2,281,018
<b>Subtotal</b>	<b>1,800</b>	<b>—</b>	<b>796,810</b>	<b>752,652</b>	<b>1,619,518</b>	<b>3,170,780</b>
<b>Net</b>	<b>976,012</b>	<b>27,387,697</b>	<b>113,565,133</b>	<b>839,210,874</b>	<b>(1,319,712)</b>	<b>979,820,004</b>
Off-balance sheet guarantee	—	—	20,000,000	44,050,000	—	64,050,000

#### (e) Capital management

According to the Opinions on Supporting and Restricting the Rural Micro-Finance Companies in Jiangsu Province (Provisional) (Su Jin Rong Ban Fa [2013] No. 103), the liabilities of micro-finance rural companies should not exceed 100% of the net capital and the contingent liabilities should not exceed 250% of the net capital.

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

## Notes to Financial Statements

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(Amounts expressed in RMB unless otherwise stated)

### 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### (e) Capital management (continued)

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing borrowings, less cash and cash equivalents. Management regards total equity, which includes share capital, reserves and retained earnings, as capital. The gearing ratios as at the end of the reporting periods were as follows:

	31 December	
	2021	2020
Instalment loan payable	—	127,296
Lease liabilities	2,555,624	1,959,236
Less: Cash and cash equivalents	5,608,151	803,738
Net debt	(3,052,527)	1,282,794
Share capital	600,000,000	600,000,000
Reserves	113,204,683	112,684,337
Retained earnings	174,521,164	170,480,622
Capital	887,725,847	883,164,959
Capital and net debt	884,673,320	884,447,753
Gearing ratio	N/A	0.15%

### 35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group's financial assets mainly include cash at banks and from a third party, and loans receivable.

The Group's financial liabilities mainly include lease liabilities and other payables.

Due to the short remaining period or periodical repricing to reflect the market price, the carrying amounts of these financial assets and liabilities approximate to their fair values.

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### 36. EVENTS AFTER THE REPORTING PERIOD

Except for the above, there were no significant events after the reporting period.

### 37. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

### 38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2021	As at 31 December 2020
<b>ASSETS</b>		
Cash and cash equivalents	4,161,027	803,738
Loans receivable	803,044,860	893,332,271
Investments in subsidiaries	2,000,000	—
Investment in an associate	79,916,885	—
Property and equipment	3,958,319	5,185,173
Deferred tax	6,772,583	7,910,412
Other assets	538,332	538,587
<b>TOTAL ASSETS</b>	<b>900,392,006</b>	<b>907,770,181</b>
<b>LIABILITIES</b>		
Deferred income	307,729	777,846
Income tax payable	1,841,549	13,924,780
Liabilities from guarantees	1,004,562	1,456,752
Lease liabilities	1,210,938	1,959,236
Other liabilities	7,658,808	6,486,608
<b>TOTAL LIABILITIES</b>	<b>12,023,586</b>	<b>24,605,222</b>
<b>EQUITY</b>		
Share capital	600,000,000	600,000,000
Reserves	113,204,683	112,684,337
Retained earnings	175,163,737	170,480,622
<b>TOTAL EQUITY</b>	<b>888,368,420</b>	<b>883,164,959</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>900,392,006</b>	<b>907,770,181</b>

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*(Amounts expressed in RMB unless otherwise stated)*

## 38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

A summary of the Company's reserves is as follows:

	Capital reserve	Surplus reserve	General reserve	Total
Balance as at 1 January 2020	54,417,191	45,291,124	8,989,827	108,698,142
Appropriation to surplus reserve	—	3,673,464	—	3,673,464
Appropriation to general reserve	—	—	312,731	312,731
Balance as at 31 December 2020	54,417,191	48,964,588	9,302,558	112,684,337
Appropriation to surplus reserve	—	520,346	—	520,346
Appropriation to general reserve	—	—	—	—
Balance as at 31 December 2021	54,417,191	49,484,934	9,302,558	113,204,683

## 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved and authorised for issue by the Company's board of directors on 25 March 2022.

## Five-Year Financial Summary

Below is a summary of the Group's results for the last five financial years and the assets and liabilities of the Group as at 31 December 2021, 2020, 2019, 2018 and 2017, as extracted from the published audited financial statements for the years ended 31 December 2021, 2020, 2019, 2018 and 2017. The amounts set out in this financial summary are prepared as if the current structure of the Group had been in existence throughout the year presented.

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Interest income	60,546	75,462	104,156	108,333	91,338
Interest expense	(200)	(240)	(283)	—	(98)
Interest income, net	60,346	75,222	103,873	108,333	91,240
Accrual of provision for impairment losses	(46,944)	(15,432)	(11,817)	(3,037)	(7,260)
Reversal/(accrual) of provision for guarantee losses	452	(704)	(669)	(26)	(58)
Administrative expenses	(11,390)	(13,294)	(24,882)	(15,291)	(20,728)
Other income/(expenses), net	3,945	3,558	1,368	2,272	(2,162)
<b>Profit before tax</b>	<b>6,409</b>	<b>49,350</b>	<b>67,873</b>	<b>92,249</b>	<b>61,032</b>
Income tax expense	(1,848)	(12,615)	(17,754)	(23,494)	(15,198)
<b>PROFIT AFTER TAX AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>4,561</b>	<b>36,735</b>	<b>50,119</b>	<b>68,755</b>	<b>45,834</b>
<b>ASSETS AND LIABILITIES</b>					
Total assets	904,476	907,770	881,004	827,458	804,692
Total liabilities	16,750	24,605	19,574	16,146	14,136
Net assets	887,726	883,165	861,430	811,311	790,556