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

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

(Stock Code: 6866)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

The board (the “**Board**”) of directors (the “**Directors**”) of 佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited*) (the “**Company**”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2023 (the “**Interim Results**”), together with comparative figures for the corresponding period, prepared in accordance with the Hong Kong Financial Reporting Standards promulgated by the Hong Kong Institute of Certified Public Accountants. The Board and the audit committee of the Company (the “**Audit Committee**”) have reviewed and confirmed the Interim Results.

INTERIM RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 — unaudited

(Expressed in RMB'000, unless otherwise stated)

		<u>Six months ended 30 June</u>	
		2023	2022
	Note	RMB'000	RMB'000
Interest income		122,463	121,412
Interest and commission expenses		<u>(25,257)</u>	<u>(23,468)</u>
Net interest income	3	97,206	97,944
Other net (loss)/income	4	(13,834)	15,432
Impairment losses	5	22,792	(8,044)
Administrative expenses		<u>(26,524)</u>	<u>(26,939)</u>
Profit before taxation	6	79,640	78,393
Income tax	7	<u>(20,887)</u>	<u>(20,589)</u>
Profit and total comprehensive income for the period		<u>58,753</u>	<u>57,804</u>
Attributable to:			
Equity shareholders of the Company		56,053	55,473
Non-controlling interests		<u>2,700</u>	<u>2,331</u>
Profit for the period		<u>58,753</u>	<u>57,804</u>
Earnings per share			
Basic and diluted (RMB)	8	<u>0.05</u>	<u>0.05</u>

The accompanying notes form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 — unaudited

(Expressed in RMB'000, unless otherwise stated)

		At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
	<i>Note</i>		
Assets			
Cash and cash equivalents	9	116,010	16,595
Interest receivables		175	163
Loans and advances to customers	10	2,462,603	2,654,305
Goodwill		18,776	18,776
Fixed assets	12	33,865	37,504
Deferred tax assets	13	58,932	58,814
Other assets		<u>1,624</u>	<u>1,481</u>
Total assets		<u><u>2,691,985</u></u>	<u><u>2,787,638</u></u>
Liabilities			
Interest-bearing borrowings	14	641,540	759,932
Accruals and other payables	15	18,120	21,280
Dividends payable	16	47,200	—
Lease liabilities		323	1,946
Current taxation		<u>19,971</u>	<u>42,958</u>
Total liabilities		<u><u>727,154</u></u>	<u><u>826,116</u></u>
NET ASSETS		<u><u>1,964,831</u></u>	<u><u>1,961,522</u></u>

The accompanying notes form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 — unaudited (continued)

(Expressed in RMB'000, unless otherwise stated)

		At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
CAPITAL AND RESERVES	<i>17</i>		
Share capital		1,180,000	1,180,000
Reserves		<u>728,028</u>	<u>718,488</u>
Total equity attributable to equity shareholders of the Company		1,908,028	1,898,488
Non-controlling interests		<u>56,803</u>	<u>63,034</u>
TOTAL EQUITY		<u><u>1,964,831</u></u>	<u><u>1,961,522</u></u>

The accompanying notes form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023 — unaudited

(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company					Total	Non-controlling interests	Total equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note	Note	Note	Note				
	17(b)	17(c)(i)	17(c)(ii)	17(c)(iii)				
Balance at 31 December 2021 and 1 January 2022	<u>1,180,000</u>	<u>1,427</u>	<u>48,794</u>	<u>65,375</u>	<u>568,552</u>	<u>1,864,148</u>	<u>64,478</u>	<u>1,928,626</u>
Changes in equity for the six months ended								
30 June 2022:								
Profit and total comprehensive income for the period	—	—	—	—	55,473	55,473	2,331	57,804
Dividends approved in respect of the previous year (Note 17(a))	—	—	—	—	(59,000)	(59,000)	—	(59,000)
Balance at 30 June 2022	<u>1,180,000</u>	<u>1,427</u>	<u>48,794</u>	<u>65,375</u>	<u>565,025</u>	<u>1,860,621</u>	<u>66,809</u>	<u>1,927,430</u>
Balance at 30 June 2022 and 1 July 2022	<u>1,180,000</u>	<u>1,427</u>	<u>48,794</u>	<u>65,375</u>	<u>565,025</u>	<u>1,860,621</u>	<u>66,809</u>	<u>1,927,430</u>
Changes in equity for the six months ended								
31 December 2022:								
Profit and total comprehensive income for the period	—	—	—	—	37,867	37,867	1,025	38,892
Appropriation to surplus reserve	—	—	667	—	(667)	—	—	—
Appropriation to general reserve	—	—	—	3,941	(3,941)	—	—	—
Dividends to non-controlling shareholders approved in respect of the previous year (Note 17a))	—	—	—	—	—	—	(4,800)	(4,800)
Balance at 31 December 2022	<u>1,180,000</u>	<u>1,427</u>	<u>49,461</u>	<u>69,316</u>	<u>598,284</u>	<u>1,898,488</u>	<u>63,034</u>	<u>1,961,522</u>
Balance at 31 December 2022 and 1 January 2023	<u>1,180,000</u>	<u>1,427</u>	<u>49,461</u>	<u>69,316</u>	<u>598,284</u>	<u>1,898,488</u>	<u>63,034</u>	<u>1,961,522</u>
Changes in equity for the six months ended								
30 June 2023:								
Profit and total comprehensive income for the period	—	—	—	—	56,053	56,053	2,700	58,753
Acquisition of interest in subsidiary from non-controlling shareholders (Note 11)	—	687	—	—	—	687	(8,931)	(8,244)
Dividends approved in respect of the previous year (Note 17(a))	—	—	—	—	(47,200)	(47,200)	—	(47,200)
Balance at 30 June 2023	<u>1,180,000</u>	<u>2,114</u>	<u>49,461</u>	<u>69,316</u>	<u>607,137</u>	<u>1,908,028</u>	<u>56,803</u>	<u>1,964,831</u>

The accompanying notes form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2023 — unaudited

(Expressed in RMB'000, unless otherwise stated)

	Note	<u>Six months ended 30 June</u>	
		2023	2022
		RMB'000	RMB'000
Operating activities			
Cash generated from/(used in) operations		309,920	(1,918)
PRC income tax paid		<u>(43,992)</u>	<u>(6,565)</u>
Net cash generated from/(used in) operating activities		<u>265,928</u>	<u>(8,483)</u>
Investing activities			
Proceeds from disposal of fixed assets		1	—
Payment for the purchase of fixed assets		<u>(19)</u>	<u>(27)</u>
Net cash used in investing activities		<u>(18)</u>	<u>(27)</u>
Financing activities			
Proceeds from bank loans		50,000	50,000
Proceeds from third parties borrowings		56,800	104,435
Proceeds from Euro zone borrowings		67,612	197,292
Repayment of bank loans		(145,000)	(50,000)
Repayment of third parties borrowings		(132,020)	(105,310)
Repayment of Euro zone borrowings		(29,797)	(128,725)
Interest paid		(24,400)	(15,732)
Capital element of lease rentals paid		(1,447)	(1,639)
Interest element of lease rentals paid		(17)	(142)
Payment for acquisition of interest in subsidiary from non-controlling shareholders	11	<u>(8,244)</u>	<u>(2,600)</u>
Net cash (used in)/generated from financing activities		<u>(166,513)</u>	<u>47,579</u>
Net increase in cash and cash equivalents		99,397	39,069
Cash and cash equivalents at 1 January	9	16,595	42,678
Effect of foreign exchange rates changes		<u>18</u>	<u>(527)</u>
Cash and cash equivalents at 30 June	9	<u>116,010</u>	<u>81,220</u>

The accompanying notes form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000, unless otherwise stated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 18 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following new and amended HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform — Pillar Two model rules*

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

HKFRS 17, *Insurance contracts*

HKFRS 17, which replaces HKFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts. The standard does not have a material impact on these financial statements as the Group does not have contracts within the scope of HKFRS 17.

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

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

The amendments do not have a material impact on these financial statements as the temporary differences in relation to right-of-use assets and lease liabilities are immaterial.

Amendments to HKAS 12, *Income taxes: International tax reform — Pillar Two model rules*

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (“OECD”) (income tax arising from such tax laws is hereafter referred to as “Pillar Two income taxes”), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax. The amendments are immediately effective upon issuance and require retrospective application.

The amendments do not have a material impact on these financial statements as the Group is not subject to the amendments.

3 NET INTEREST INCOME

The principal activity of the Group is the provision of loans to customers in Zhejiang Province, the PRC. The amount of each significant category of revenue recognised is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Interest income arising from		
Loans and advances to customers	122,421	121,370
Cash at banks	42	42
	122,463	121,412
Interest and commission expenses arising from		
Borrowings from banks	(2,010)	(2,843)
Borrowings from non-bank institutions	(23,191)	(20,435)
Lease liabilities	(17)	(142)
Bank charges	(39)	(48)
	(25,257)	(23,468)
Net interest income	97,206	97,944

The Group’s customer base is diversified and no customer with whom transactions have exceeded 10% of the Group’s net interest income during the period. Details of credit risk management are set out in Note 18(a).

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

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

4 OTHER NET (LOSS)/INCOME

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Government grants	—	10,313
Exchange (losses)/gains	(13,934)	5,242
Gains from disposal of fixed assets	25	—
Others	75	(123)
Total	<u>(13,834)</u>	<u>15,432</u>

5 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Loans and advances to customers (Note 10)	20,346	(6,628)
Interest receivables	2,446	(1,416)
Total	<u>22,792</u>	<u>(8,044)</u>

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Salaries, bonuses and allowance	6,593	7,963
Social insurance and other benefits	1,245	1,425
Contribution to retirement scheme	73	99
Total	<u>7,911</u>	<u>9,487</u>

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

(b) Other items

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Depreciation expenses (Note 12)		
— owned fixed assets	2,095	2,372
— right-of-use assets	1,258	1,483
— Investment property	33	—
Auditors' remuneration	899	899
Amortization of intangible assets	—	283
Operating lease charges	3	4

7 INCOME TAX

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Current tax		
Provision for PRC income tax for the period	21,005	17,774
Deferred tax (Note 13)		
Origination and reversal of temporary differences	(118)	2,815
Total	20,887	20,589

Notes:

- (i) The Company and the subsidiaries of the Group incorporated in the PRC are subject to the PRC income tax at the statutory tax rate of 25% for the six months ended 30 June 2023 (six months ended 30 June 2022: 25%).
- (ii) No provision for Hong Kong Profit Tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profit Tax for the six months ended 30 June 2023 and 30 June 2022.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB56.1 million (six months ended 30 June 2022: RMB55.5 million) and the weighted average of 1,180,000,000 ordinary shares (six months ended 30 June 2022: 1,180,000,000) in issue during the interim period.

There were no dilutive potential ordinary shares during each of the six months ended 30 June 2023 and 30 June 2022, and therefore, diluted earnings per share are the same as the basic earnings per share.

9 CASH AND CASH EQUIVALENTS

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Cash in hand	3	2
Cash at banks	115,965	16,587
Others	<u>42</u>	<u>6</u>
Cash and cash equivalents in the cash flow statement	<u>116,010</u>	<u>16,595</u>

10 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Corporate loans	1,028,178	1,110,479
Retail loans	1,560,334	1,703,428
Micro-loans granted online	<u>28,596</u>	<u>26,915</u>
Sub-total	<u>2,617,108</u>	<u>2,840,822</u>
Accrued interest	<u>29,102</u>	<u>22,934</u>
Gross loans and advances to customers	<u>2,646,210</u>	<u>2,863,756</u>
Less: Allowances for impairment losses	<u>(183,607)</u>	<u>(209,451)</u>
Net loans and advances to customers	<u>2,462,603</u>	<u>2,654,305</u>

(b) Analysed by type of collateral

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Unsecured loans	29,555	27,917
Guaranteed loans	2,559,627	2,782,373
Collateralized loans	8,690	10,542
Pledged loans	<u>19,236</u>	<u>19,990</u>
Sub-total	<u>2,617,108</u>	<u>2,840,822</u>
Accrued interest	<u>29,102</u>	<u>22,934</u>
Gross loans and advances to customers	<u>2,646,210</u>	<u>2,863,756</u>
Less: Allowances for impairment losses	<u>(183,607)</u>	<u>(209,451)</u>
Net loans and advances to customers	<u>2,462,603</u>	<u>2,654,305</u>

(c) Analysed by industry sector

	At 30 June 2023		At 31 December 2022	
	RMB'000	%	RMB'000	%
Wholesale and retail	559,700	21%	588,900	21%
Manufacturing	87,678	3%	91,979	3%
Construction	108,600	4%	132,100	4%
Agriculture, forestry, animal husbandry and fishery	500	1%	500	1%
Others	<u>271,700</u>	<u>10%</u>	<u>297,000</u>	<u>10%</u>
Corporate loans	1,028,178	39%	1,110,479	39%
Retail loans	1,560,334	60%	1,703,428	60%
Micro-loans granted online	<u>28,596</u>	<u>1%</u>	<u>26,915</u>	<u>1%</u>
Sub-total	<u>2,617,108</u>	<u>100%</u>	<u>2,840,822</u>	<u>100%</u>
Accrued interest	<u>29,102</u>		<u>22,934</u>	
Gross loans and advances to customers	2,646,210		2,863,756	
Less: Allowances for impairment losses	<u>(183,607)</u>		<u>(209,451)</u>	
Net loans and advances to customers	<u>2,462,603</u>		<u>2,654,305</u>	

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

	At 30 June 2023				
	Overdue within 3 months (inclusive) <i>RMB'000</i>	Overdue more than 3 months to 6 months (inclusive) <i>RMB'000</i>	Overdue more than 6 months to one year (inclusive) <i>RMB'000</i>	Overdue more than one year <i>RMB'000</i>	Total <i>RMB'000</i>
Unsecured loans	255	131	660	12,583	13,629
Guaranteed loans	17,252	14,645	9,373	55,407	96,677
Collateralized loans	—	500	500	6,689	7,689
Total	<u>17,507</u>	<u>15,276</u>	<u>10,533</u>	<u>74,679</u>	<u>117,995</u>

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

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

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

	At 30 June 2023			
	12-month ECLs <i>RMB'000</i>	Lifetime ECLs non credit- impaired <i>RMB'000</i>	Lifetime ECLs credit- impaired <i>RMB'000</i>	Total <i>RMB'000</i>
Gross loans and advances to customers	2,436,450	92,351	117,409	2,646,210
Less: Allowances for impairment losses	<u>(56,765)</u>	<u>(13,611)</u>	<u>(113,231)</u>	<u>(183,607)</u>
Net loans and advances to customers	<u>2,379,685</u>	<u>78,740</u>	<u>4,178</u>	<u>2,462,603</u>
	At 31 December 2022			
	12-month ECLs <i>RMB'000</i>	Lifetime ECLs non credit- impaired <i>RMB'000</i>	Lifetime ECLs credit- impaired <i>RMB'000</i>	Total <i>RMB'000</i>
Gross loans and advances to customers	2,638,388	91,026	134,342	2,863,756
Less: Allowances for impairment losses	<u>(62,864)</u>	<u>(17,883)</u>	<u>(128,704)</u>	<u>(209,451)</u>
Net loans and advances to customers	<u>2,575,524</u>	<u>73,143</u>	<u>5,638</u>	<u>2,654,305</u>

(f) Movements of allowances for impairment losses

	Six months ended 30 June 2023			
	12-month ECLs <i>RMB'000</i>	Lifetime ECLs non credit- impaired <i>RMB'000</i>	Lifetime ECLs credit- impaired <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2023	62,864	17,883	128,704	209,451
Transferred to				
— Lifetime ECLs non credit-impaired	(625)	625	—	—
— Lifetime ECLs credit-impaired	(419)	(22)	441	—
Reversal for the period	(5,055)	(4,875)	(10,416)	(20,346)
Write off	—	—	(5,800)	(5,800)
Recoveries of loans and advances written off in previous years	—	—	302	302
At 30 June 2023	<u>56,765</u>	<u>13,611</u>	<u>113,231</u>	<u>183,607</u>
	Year ended 31 December 2022			
	12-month ECLs <i>RMB'000</i>	Lifetime ECLs non credit- impaired <i>RMB'000</i>	Lifetime ECLs credit- impaired <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2022	65,720	13,939	118,025	197,684
Transferred to				
— Lifetime ECLs non credit-impaired	(1)	1	—	—
— Lifetime ECLs credit- impaired	(1,008)	(602)	1,610	—
(Reversal)/charge for the year	(1,847)	4,545	15,137	17,835
Write off	—	—	(8,466)	(8,466)
Recoveries of loans and advances written off in previous years	—	—	2,398	2,398
At 31 December 2022	<u>62,864</u>	<u>17,883</u>	<u>128,704</u>	<u>209,451</u>

(g) **Analysed by credit quality**

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Gross balance of loans and advances to customers that are assessed for 12-month ECLs		
— Neither overdue nor credit-impaired	<u>2,436,450</u>	<u>2,638,388</u>
Sub-total	<u>2,436,450</u>	<u>2,638,388</u>
Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired		
— Overdue but not credit-impaired	586	749
— Neither overdue nor credit-impaired	<u>91,765</u>	<u>90,277</u>
Sub-total	<u>92,351</u>	<u>91,026</u>
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired		
— Overdue and credit-impaired	117,409	132,837
— Not overdue but credit-impaired	<u>—</u>	<u>1,505</u>
Sub-total	<u>117,409</u>	<u>134,342</u>
Less: Allowances for impairment losses	<u>(183,607)</u>	<u>(209,451)</u>
Net value	<u>2,462,603</u>	<u>2,654,305</u>

11 INVESTMENTS IN SUBSIDIARIES

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

Name of Companies	Place of incorporation and business	Paid-up capital	Proportion of ownership interest at 30 June 2023		Principal activities
			Group's effective interest	Held by the Company	
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance") (Note (i))	Deqing, Zhejiang	1,228,000,000	99.76%	99.76%	Micro-finance
Zuoli Micro-finance Hong Kong International Investment Company Limited (佐力小貸香港國際投資有限公司) ("Zuoli HK") (Note (ii))	Hong Kong	—	100.00%	100.00%	Investment, Trading
Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd. (杭州市高新區(濱江)興耀普匯小額貸款有限公司) ("Xingyao Micro-finance") (Note (iii))	Hangzhou, Zhejiang	100,000,000	66%	66%	Micro-finance

Name of Companies	Place of incorporation and business	Paid-up capital	Proportion of ownership interest at 31 December 2022		Principal activities
			Group's effective interest	Held by the Company	
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance") (Note (i))	Deqing, Zhejiang	1,228,000,000	99.76%	99.76%	Micro-finance
Zuoli Micro-finance Hong Kong International Investment Company Limited (佐力小貸香港國際投資有限公司) ("Zuoli HK") (Note (ii))	Hong Kong	—	100.00%	100.00%	Investment, Trading
Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd. (杭州市高新區(濱江)興耀普匯小額貸款有限公司) ("Xingyao Micro-finance") (Note (iii))	Hangzhou, Zhejiang	100,000,000	60%	60%	Micro-finance

Notes:

- (i) Pursuant to the equity transfer agreement and the supplemental agreement entered into by the Company and a non-controlling shareholder of Jinhui Micro-finance dated 25 January 2021 and 6 July 2021, the Company acquired 0.33% equity interest in Jinhui Micro-finance at a consideration of RMB4.8 million after obtaining approvals from relevant authorities in the PRC. Upon the completion of the aforementioned acquisition, the Company's equity interest in Jinhui Micro-finance increased from approximately 99.43% to 99.76%. As at 31 December 2022, the Company had paid RMB4.8 million in accordance with the payment plan in the supplemental agreement. The difference between the acquisition consideration and the carrying amount of the 0.33% equity interest in Jinhui Micro-finance amounted to RMB447 thousand was recorded as Reserves-Capital reserve in the consolidated statement of financial position as at 31 December 2021.
- (ii) On 18 August 2015 (date of incorporation), Zuoli HK's 1,000,000 shares with par value of HK\$1 was allotted and issued to its sole shareholder, the Company. As at 30 June 2023, the issued shares had not been paid by the Company.
- (iii) Pursuant to the equity transfer agreements entered into by the Company and non-controlling shareholders of Xingyao Micro-finance in 2022, the Company acquired 6.00% equity interest in Xingyao Micro-finance at total consideration of RMB8,244 thousand after obtaining approvals from PRC relevant authorities on 9 February 2023. Upon the completion of the aforementioned acquisition, the Company's equity interest in Xingyao Micro-finance increased from 60.00% to 66.00%. As at 30 June 2023, the Company had paid RMB8,244 thousand in accordance with the equity transfer agreements. The difference between the acquisition consideration and the carrying amount of the 6.00% equity interest in Xingyao Micro-finance amounted to RMB687 thousand was recorded as Reserves-Capital reserve in the consolidated statement of financial position as at 30 June 2023.

12 FIXED ASSETS

(a) Reconciliation of carrying amount

	Premises for own use	Right-of-use assets	Office and other equipment	Motor vehicles	Electronic equipment	Leasehold improvement	Sub-total	Investment property	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:									
At 1 January 2022	22,115	8,899	3,965	4,456	1,988	35,882	77,305	—	77,305
Additions	—	—	—	—	35	1	36	—	36
Disposal	—	—	(1)	—	—	—	(1)	—	(1)
At 31 December 2022 and 1 January 2023	22,115	8,899	3,964	4,456	2,023	35,883	77,340	—	77,340
Exchange adjustments	(15,108)	—	—	—	—	—	(15,108)	15,108	—
Additions	—	—	—	—	19	—	19	—	19
Disposal	—	(1,616)	—	—	(62)	—	(1,678)	—	(1,678)
At 30 June 2023	7,007	7,283	3,964	4,456	1,980	35,883	60,573	15,108	75,681
Accumulated depreciation:									
At 1 January 2022	(2,247)	(3,861)	(2,999)	(4,017)	(1,750)	(17,351)	(32,225)	—	(32,225)
Charge for the year	(731)	(2,966)	(540)	(288)	(82)	(3,005)	(7,612)	—	(7,612)
Disposal	—	—	1	—	—	—	1	—	1
At 31 December 2022 and 1 January 2023	(2,978)	(6,827)	(3,538)	(4,305)	(1,832)	(20,356)	(39,836)	—	(39,836)
Exchange adjustments	2,386	—	—	—	—	—	2,386	(2,386)	—
Charge for the period	(335)	(1,258)	(216)	(13)	(29)	(1,502)	(3,353)	(33)	(3,386)
Disposal	—	1,347	—	—	59	—	1,406	—	1,406
At 30 June 2023	(927)	(6,738)	(3,754)	(4,318)	(1,802)	(21,858)	(39,397)	(2,419)	(41,816)
Net book value:									
At 30 June 2023	6,080	545	210	138	178	14,025	21,176	12,689	33,865
At 31 December 2022	19,137	2,072	426	151	191	15,527	37,504	—	37,504

Note: As at 30 June 2023, the fair value of the investment property amounted to RMB19.1 million.

(b) Right-of-use assets

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Premises leased for own use, carried at depreciated cost	545	2,072

13 DEFERRED TAX ASSETS

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the period are as follows:

<i>Deferred tax assets arising from:</i>	Provision for impairment losses RMB'000	Accrued expenses RMB'000	Tax deductible losses RMB'000	Exchange gains RMB'000	Total RMB'000
At 1 January 2022	51,933	249	—	—	52,182
Charged to profit or loss	<u>4,678</u>	<u>(190)</u>	<u>—</u>	<u>2,144</u>	<u>6,632</u>
At 31 December 2022 and 1 January 2023	56,611	59	—	2,144	58,814
Charged to profit or loss (<i>Note 7</i>)	<u>(5,113)</u>	<u>—</u>	<u>1,934</u>	<u>3,297</u>	<u>118</u>
At 30 June 2023	<u><u>51,498</u></u>	<u><u>59</u></u>	<u><u>1,934</u></u>	<u><u>5,441</u></u>	<u><u>58,932</u></u>

14 INTEREST-BEARING BORROWINGS

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Bank loans (<i>Note (i)</i>)		
— Amortised cost	25,000	120,000
— Accrued interest	<u>13</u>	<u>143</u>
	<u>25,013</u>	<u>120,143</u>
Borrowings from third parties (<i>Note (ii)</i>)		
— Amortised cost	122,321	196,000
— Accrued interest	<u>3,248</u>	<u>4,581</u>
	<u>125,569</u>	<u>200,581</u>
Borrowings from Euro zone (<i>Note (iii)</i>)		
— Amortised cost	488,834	433,953
— Accrued interest	<u>2,124</u>	<u>5,255</u>
	<u>490,958</u>	<u>439,208</u>
Total	<u><u>641,540</u></u>	<u><u>759,932</u></u>

Notes:

- (i) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2023 and 31 December 2022, none of the covenants relating to the bank loans had been breached.
- (ii) During the six months ended 30 June 2023, the Group obtained financings with nominal amount totaling RMB56.8 million at an interest rate of 4.90% per annum by issuing financing products indirectly on trading platforms located in the PRC which are due from October 2023 to April 2024, and repaid financings with nominal amount totaling RMB132.0 million. As at 30 June 2023, the remaining balance of these financings was RMB123.5 million. The above transactions were guaranteed by certain shareholders and related parties.
- (iii) During the six months ended 30 June 2023, the Group repaid financings with nominal amount totaling EUR1.3 million. As at 30 June 2023, the remaining balance of these financing was EUR29.5 million. Among these borrowings, nominal amount totaling EUR21.5 million at an interest rate ranging from 4.00% to 4.25% per annum are guaranteed by the Jinhui Micro-finance, which are due from March 2024 to November 2025.

During the six months ended 30 June 2023, the Group obtained financing with nominal amount totaling CNH68.8 million at an interest rate of 6.50% per annum from a financial institution located in Euro zone, which are due in May 2026, and repaid financings with nominal amount totaling CNH20.1 million. As at 30 June 2023, the remaining balance of these financing was CNH265.2 million. Among these borrowings, nominal amount totaling CNH75.0 million at an interest rate of 8.03% per annum are guaranteed by the Jinhui Micro-finance, which are due in May 2027.

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

15 ACCRUALS AND OTHER PAYABLES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Accrued staff costs	2,787	5,375
Value-added tax payable	1,787	2,834
Tax and surcharges and other taxation payable	1,815	1,597
Guarantee deposit	5,117	5,000
Auditors' remuneration payable	849	2,198
Commission payables of obtaining interest-bearing borrowings	3,058	2,176
Other payables	2,707	2,100
	18,120	21,280

16 DIVIDENDS PAYABLE

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Dividends payable (<i>Note 17(a)</i>)	<u>47,200</u>	<u>—</u>

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period.

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Final dividend in respect of the previous financial year, approved during the period, of RMB0.04 per share (six months ended 30 June 2022: RMB0.05 per share)	<u>47,200</u>	<u>59,000</u>

At the annual general meeting held on 29 June 2023, the cash dividends of RMB0.04 per share before tax in aggregation amount of RMB47.2 million was approved to declare to all equity shareholders. The dividend was attributable to the year of 2022. (six months ended 30 June 2022: RMB59.0 million)

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

(b) Share capital

As at 30 June 2023, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1 each.

(c) Nature and purpose of reserves

(i) *Capital reserve*

The capital reserve represents the increase of equity interest in Jinhui Micro-finance and Xingyao Micro-finance arising from the capital injection to Jinhui Micro-finance and acquiring equity interest in Jinhui Micro-finance and Xingyao Micro-finance from non-controlling shareholders. For details, please see Note 11.

(ii) *Surplus reserve*

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

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

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

(iii) General reserve

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

(d) Capital management

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

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

There were no changes in the Group's approach to capital management during the period from 1 January 2022 to 30 June 2022 and from 1 January 2023 to 30 June 2023.

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

18 FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

Credit risk arising from micro-finance business

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

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

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

Stage 1

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

Stage 2

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

Stage 3

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

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

When a certain number of customers undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to a particular industry or geographic location. As the Group mainly conducts micro-finance business in Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions. At 30 June 2023, 1.57% (31 December 2022: 1.45%) and 7.16% (31 December 2022: 6.39%) of the total loans and advances to customers was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk of loans and advances to customers for each stage is represented by the net carrying amount of each type of financial assets as at the end of the reporting periods. For details, please see Note 10.

Other credit risk

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

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

(b) Liquidity risk

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

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

	At 30 June 2023					
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	116,010	—	—	—	116,010	116,010
Interest receivables	175	—	—	—	175	175
Loans and advances to customers	117,995	373,441	2,187,922	24,914	2,704,272	2,462,603
Other assets	818	—	—	—	818	818
Total	<u>234,998</u>	<u>373,441</u>	<u>2,187,922</u>	<u>24,914</u>	<u>2,821,275</u>	<u>2,579,606</u>
Liabilities						
Interest-bearing borrowings	—	(101,410)	(182,962)	(422,040)	(706,412)	(641,540)
Lease liabilities	—	(159)	(174)	—	(333)	(323)
Accruals and other payables	<u>(11,731)</u>	—	—	—	<u>(11,731)</u>	<u>(11,731)</u>
Total	<u>(11,731)</u>	<u>(101,569)</u>	<u>(183,136)</u>	<u>(422,040)</u>	<u>(718,476)</u>	<u>(653,594)</u>
	<u>223,267</u>	<u>271,872</u>	<u>2,004,786</u>	<u>(397,126)</u>	<u>2,102,799</u>	<u>1,926,012</u>

At 31 December 2022

	Overdue/ Repayment on demand <i>RMB'000</i>	Within three months <i>RMB'000</i>	Between three months and one year <i>RMB'000</i>	Between one year and five years <i>RMB'000</i>	Total <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Assets						
Cash and cash equivalents	16,595	—	—	—	16,595	16,595
Interest receivables	163	—	—	—	163	163
Loans and advances to customers	133,586	415,487	2,383,888	16,029	2,948,990	2,654,305
Other assets	<u>695</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>695</u>	<u>695</u>
Total	<u>151,039</u>	<u>415,487</u>	<u>2,383,888</u>	<u>16,029</u>	<u>2,966,443</u>	<u>2,671,758</u>
Liabilities						
Interest-bearing borrowings	—	(83,379)	(336,417)	(408,632)	(828,428)	(759,932)
Lease liabilities	—	(1,642)	(159)	(174)	(1,975)	(1,946)
Accruals and other payables	<u>(11,474)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(11,474)</u>	<u>(11,474)</u>
Total	<u>(11,474)</u>	<u>(85,021)</u>	<u>(336,576)</u>	<u>(408,806)</u>	<u>(841,877)</u>	<u>(773,352)</u>
	<u>139,565</u>	<u>330,466</u>	<u>2,047,312</u>	<u>(392,777)</u>	<u>2,124,566</u>	<u>1,898,406</u>

(c) **Interest risk**

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

(i) *Interest rate profile*

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Fixed interest rate		
Financial assets		
— Loans and advances to customers	2,462,603	2,654,305
Financial liabilities		
— Interest-bearing borrowings	(641,540)	(759,932)
— Lease liabilities	(323)	(1,946)
Net	<u>1,820,740</u>	<u>1,892,427</u>
Variable interest rate		
Financial assets		
— Cash at banks	<u>115,965</u>	<u>16,587</u>
Net	<u>115,965</u>	<u>16,587</u>
Net fixed rate borrowings as a percentage of total borrowings	<u>100.00%</u>	<u>100.00%</u>

(ii) *Sensitivity analysis*

At 30 June 2023 and 31 December 2022, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Group's net profit during the next 12 months by approximately RMB435,000 and RMB62,000 respectively.

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

(d) **Currency risk**

The Group is exposed to currency risk primarily through obtaining interest-bearing borrowings that are denominated in Euros. The currencies giving rise to this risk are primarily Euros.

(i) *Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the period end date.

	<u>Exposure to foreign currencies</u>	
	<u>At 30 June 2023</u>	<u>At 31 December 2022</u>
	<u>Euros</u>	<u>Euros</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Cash and cash equivalents	—	76
Interest-bearing borrowings	<u>(233,786)</u>	<u>(229,953)</u>
	<u>(233,786)</u>	<u>(229,877)</u>

(ii) *Sensitivity analysis*

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

	<u>At 30 June 2023</u>		<u>At 31 December 2022</u>	
	<u>Increase/(decrease) in foreign exchange rates</u>	<u>Effect on profit after tax and retained profits</u>	<u>Increase/(decrease) in foreign exchange rates</u>	<u>Effect on profit after tax and retained profits</u>
	<i>bps</i>	<i>RMB'000</i>	<i>bps</i>	<i>RMB'000</i>
Euros	100	(1,753)	100	(1,724)
	(100)	1,753	(100)	1,724

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

(e) Fair value measurement

(i) *Financial assets and liabilities measured at fair value*

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

As at 30 June 2023 and 31 December 2022, there were no financial instruments measured at fair value of the Group.

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

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2022 and 30 June 2023.

19 COMMITMENTS

As at 30 June 2023 and 31 December 2022, there is no capital commitment of the Group.

20 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	<u>Six months ended 30 June</u>	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Key management personnel remuneration (<i>Note (i)</i>)	1,477	1,322
Receiving guarantees for bank loans (<i>Note (ii)</i>)	50,000	50,000
Receiving guarantees for borrowings from third parties (<i>Note (iii)</i>)	56,800	104,500
Releasing guarantees for bank loans (<i>Note (ii)</i>)	(145,000)	(50,000)
Releasing guarantees for borrowing from third parties (<i>Note (iii)</i>)	(132,020)	(105,310)

Notes:

- (i) Remuneration of key management personnel of the Group is included in “staff cost” (see Note 6(a)).
- (ii) The guarantees for bank loans during the six months ended 30 June 2023 were provided by the Chairman of the Board without charges. For the details of bank loans, please refer to Note 14(i).
- (iii) The guarantees for borrowings from third parties during the six months ended 30 June 2023 were provided by the Chairman of the Board without charges. For the details of other borrowings from third parties, please refer to Note 14(ii).

(b) Balances with key management personnel

	At 30 June 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
	Guarantees received for borrowing from third parties	123,510
Guarantees received for bank loans	25,000	120,000

(c) Other related party transactions

	<u>Six months ended 30 June</u>	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Administrative expenses (<i>Note (i)</i>)	577	840
Depreciation expense of right-of-use assets (<i>Note (ii)</i>)	1,122	1,347
Interest expense of lease liabilities (<i>Note (ii)</i>)	4	119
Receiving guarantees for bank loans (<i>Note (iii)</i>)	50,000	50,000
Receiving guarantees for borrowings from third parties (<i>Note (iv)</i>)	56,800	104,500
Releasing guarantees for bank loans (<i>Note (iii)</i>)	(145,000)	(50,000)
Releasing guarantees for borrowings from third parties (<i>Note (iv)</i>)	(132,020)	(105,310)

Notes:

- (i) The utilities and entertainment fees were paid to Zuoli Holdings Group Company Limited and its subsidiary.
- (ii) On 7 July 2020, the Company and Zuoli Holdings Group Company Limited entered into a new lease agreement, pursuant to which Zuoli Holdings Group Company Limited agreed to lease a property to the Group for a term of 3 years commencing from 7 July 2020 and ending on 6 July 2023.
- (iii) The guarantees for bank loans during the six months ended 30 June 2023 were provided by other related parties of the Group without charges. For the details of bank loans, please refer to Note 14(i).
- (iv) The guarantees for borrowings from third parties during the six months ended 30 June 2023 were provided by other related parties of the Group without charges. For the details of other borrowings from third parties, please refer to Note 14(ii).

(d) Balances with other related parties

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Lease liabilities	—	1,485
Guarantees received for bank loans	25,000	120,000
Guarantees received for borrowing from third parties	123,510	198,730

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

We carried out our microfinance business in the PRC, and our business is mainly conducted in Deqing County, Huzhou City and Binjiang District, Hangzhou City, the Zhejiang Province, where the main market share comes from Deqing County. Zhejiang province is the important birthplace of President Xi Jinping’ s thought on ecological civilisation, and according to the Opinion on Supporting the High Quality Development and the Construction of a Common Prosperity Demonstration Zone in Zhejiang (《關於支持浙江高質量發展建設共同富裕示範區的意見》) issued by the State Council in May 2021, Zhejiang Province was endowed an important demonstration reform task of realizing common prosperity and a series of important decisions and deployment were proposed, which will be more favorable for the overall coordinated development of Zhejiang Province in terms of economy, society, culture, ecology, etc.. Besides, Huzhou is the birthplace of the important thought that “lucid waters and lush mountains are invaluable assets” and the experimental area of the national green finance reform and innovation, and is one of the best cities in Zhejiang Province and even the country in respect of financial ecological environment, which bring us a unique advantage to explore green development. We seized the opportunity and became the first and the only green micro-finance company in Huzhou City. Recently, the State Council granted approval to Huzhou City to construct a national sustainable development innovation zone under the theme of sustainable development in ecological resource-intensive areas driven by green innovation. Deqing has experienced robust economic development and growth in recent years, and is placed among the national top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). Deqing has been designated as a “technological outstanding county (科技強縣)”, a “financial innovation demonstration county (金融創新示範縣)” as well as the “financial back-office base in Yangtze River Delta (長三角金融後台基地)” by Zhejiang provincial government of the PRC. In May 2022, the United Nations Global Geospatial Knowledge and Innovation Centre was inaugurated in Deqing. A number of new high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which has promoted the development of the local financial services industry.

As of 30 June 2023, the number of microfinance companies in Zhejiang reached 281 in total. The average registered capital per microfinance company amounted to RMB0.17 billion. The average loan balance per microfinance company amounted to RMB0.18 billion.

As of 30 June 2023, apart from the Group, there were three other microfinance companies in Deqing. The accumulated aggregate amount of loans granted by the Group and the three microfinance companies for the six months ended 30 June 2023 reached approximately RMB2.02 billion, out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 71.4%. As of 30 June 2023, the balance of loans (excluding accrued interest) of the Group and these three microfinance companies reached RMB3.17 billion, out of which the balance of loans (excluding accrued interest) of the Group accounted for approximately 82.5%.

Business Overview

As at 30 June 2023, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Zhejiang Provincial Financial Regulatory Bureau* (浙江省地方金融监督管理局). We have been providing financing solutions and loan services to customers with flexible terms through quick and comprehensive loan assessment and approval processes.

Our customer base primarily consists of customers engaged in AFR (三農), the SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc.. Besides, as the pilot unit of green micro-finance company in Huzhou City, we actively explored green micro-finance model, granted green finance to green industries or segments including ecology, agriculture, forestry, animal husbandry and fishery, development of new energy, technological improvement of energy conservation and emission reduction as well as economic transition. As at 30 June 2023, we had 1,271 customers.

Our gross loan balance (excluding accrued interest) decreased from RMB2,840.8 million as at 31 December 2022 to RMB2,617.1 million as at 30 June 2023.

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

	As at 30 June 2023	As at 31 December 2022
Registered capital (RMB'000)	1,180,000	1,180,000
Gross loans and advances to customers (excluding accrued interest, RMB'000)	2,617,108	2,840,822
Leverage ratio ⁽¹⁾	2.22	2.41

Note:

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

For the six months ended 30 June 2022 and 30 June 2023, our average interest rates for loans were 9.0% and 8.8%, respectively. Our average loan interest rate slightly decreased during the aforesaid period, mainly due to grant of lower interest rate for green loans, and the increase in amount of green loans. In addition, in recent years, the national banks increased their support to small and micro enterprises in respond to the policy requirements, and at the same time, the average interest rate for loans granted by our peers decreased. Therefore, in order to ensure assets quality and market share, maintain industry competitiveness, we lowered our average interest rates for loans.

As at 31 December 2022 and 30 June 2023, approximately 74.1% and 75.5% of loan contracts were with maximum amount limited to RMB1 million, respectively. Among our loan contracts, the higher proportion of loans with amount up to RMB1 million was mainly due to the fact that we mainly target to serve SMEs and micro enterprises, individuals in the agricultural, industrial and service sectors in Huzhou City and Hangzhou City and online retailers engaging in the business of lifestyle products, agricultural products, cultural supplies and industrial products, etc., the loan amounts granted to whom are generally lower.

Loans and Advances to Customers by Security

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

	As at 30 June 2023		As at 31 December 2022	
	RMB'000	%	RMB'000	%
Unsecured loans ⁽¹⁾	29,555	1.1	27,917	1.0
Guaranteed loans	2,559,627	97.8	2,782,373	97.9
Collateralized loans	8,690	0.3	10,542	0.4
Pledged loans	<u>19,236</u>	<u>0.8</u>	<u>19,990</u>	<u>0.7</u>
Sub-total	2,617,108	100.0	2,840,822	100.0
Accrued interest	<u>29,102</u>		<u>22,934</u>	
Gross loans and advances to customers	<u>2,646,210</u>		<u>2,863,756</u>	

Note:

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

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

	As at 30 June 2023			Total RMB'000
	12-month ECLs RMB'000	Lifetime ECLs non credit- impaired RMB'000	Lifetime ECLs credit- impaired RMB'000	
Gross loans and advances to customers	2,436,450	92,351	117,409	2,646,210
Less: Allowances for impairment losses	<u>(56,765)</u>	<u>(13,611)</u>	<u>(113,231)</u>	<u>(183,607)</u>
Net loans and advances to customers	<u><u>2,379,685</u></u>	<u><u>78,740</u></u>	<u><u>4,178</u></u>	<u><u>2,462,603</u></u>
	As at 31 December 2022			Total RMB'000
	12-month ECLs RMB'000	Lifetime ECLs non credit- impaired RMB'000	Lifetime ECLs credit- impaired RMB'000	
Gross loans and advances to customers	2,638,388	91,026	134,342	2,863,756
Less: Allowances for impairment losses	<u>(62,864)</u>	<u>(17,883)</u>	<u>(128,704)</u>	<u>(209,451)</u>
Net loans and advances to customers	<u><u>2,575,524</u></u>	<u><u>73,143</u></u>	<u><u>5,638</u></u>	<u><u>2,654,305</u></u>

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

	As at 30 June 2023	As at 31 December 2022
Impaired loan ratio⁽¹⁾	4.4%	4.7%
Balance of impaired loans (RMB'000)	117,409	134,342
Gross loans and advances to customers (RMB'000)	2,646,210	2,863,756
Allowance coverage ratio⁽²⁾	156%	156%
Allowances for impairment losses ⁽³⁾ (RMB'000)	183,607	209,451
Balance of impaired loans (RMB'000)	117,409	134,342
Provision for impairment losses ratio⁽⁴⁾	6.9%	7.3%
Balance of overdue loans (RMB'000)	117,995	133,586
Gross loans and advances to customers (RMB'000)	2,646,210	2,863,756
Overdue loan ratio⁽⁵⁾	4.5%	4.7%

Notes:

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

Total impaired loans

As at 31 December 2022 and 30 June 2023, our balance of impaired loans amounted to RMB134.3 million and RMB117.4 million, respectively.

Total overdue loans

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

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Unsecured loans	13,629	13,669
Guaranteed loans	96,677	112,425
Collateralized loans	<u>7,689</u>	<u>7,492</u>
Total overdue loans	<u><u>117,995</u></u>	<u><u>133,586</u></u>

We had overdue loans of RMB133.6 million and RMB118.0 million as at 31 December 2022 and 30 June 2023, respectively, accounting for 4.7% and 4.5% of our gross loan balance as at the same dates. As at 18 August 2023, RMB3.0 million out of the overdue loans as of 30 June 2023 was recovered.

Financial Overview

Net interest income

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

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Interest income from		
Loans and advances to customers	122,421	121,370
Cash at banks	<u>42</u>	<u>42</u>
Total interest income	<u>122,463</u>	<u>121,412</u>
Interest and commission expenses from		
Borrowings from banks	(2,010)	(2,843)
Borrowings from non-bank institutions	(23,191)	(20,435)
Lease liabilities	(17)	(142)
Bank charges	<u>(39)</u>	<u>(48)</u>
Total interest and commission expenses	<u>(25,257)</u>	<u>(23,468)</u>
Net interest income	<u><u>97,206</u></u>	<u><u>97,944</u></u>

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rate that we charge on loans to our customers. For the reporting period, our average daily loan balance increased compared with the corresponding period last year, which was generally in line with the size of our capital base, which is in turn affected by the size of our net assets and scale of financing. For the six months ended 30 June 2022 and 30 June 2023, our average interest rates for loans were 9.0% and 8.8%, respectively. Our average loan interest rate slightly decreased during the aforesaid period, mainly due to grant of lower interest rate for green loans, and the increase in amount of green loans. In addition, in recent years, national banks increased their support to SMEs in response to policy requirements. Meanwhile, the average interest rate on loans granted by our peers declined. As a result, in order to secure our asset quality and market share, as well as to maintain competitiveness in the industry, we reduced our average loan interest rate.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions, lease liabilities as well as bank charges, were RMB23.5 million and RMB25.3 million for the six months ended 30 June 2022 and 30 June 2023, respectively. Our incurred interest expenses were primarily attributable to the interest payment on bank borrowings and non-bank institutions borrowings, including borrowings from third parties and borrowings from Euro zone, which were principally applied to expand our loan business.

Our balance of bank borrowings (excluding accrued interest) as at 30 June 2022 and 30 June 2023 amounted to RMB130.0 million and RMB25.0 million, respectively. Our balance of borrowings from non-bank institutions (excluding accrued interest) amounted to RMB576.5 million and RMB611.2 million as at 30 June 2022 and 30 June 2023, respectively.

Our net interest income for the six months ended 30 June 2022 and 30 June 2023 were RMB97.9 million and RMB97.2 million, respectively.

Other net (loss)/income

Our other net income for the six months ended 30 June 2022 was RMB15.4 million and other net (loss) for the six months ended 30 June 2023 was RMB13.8 million, mainly due to the decrease in government subsidy received of RMB10.3 million during the corresponding period last year and the exchange losses of RMB13.9 million in the current period.

Impairment losses

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

For the six months ended 30 June 2022 and 30 June 2023, our impairment losses were a provision of RMB8.0 million and a reversal of RMB22.8 million, respectively, mainly due to our gross loans and advances to customers decreased from RMB2,863.8 million as at 31 December 2022 to RMB2,646.2 million as at 30 June 2023 releasing of partial allowances.

Administrative expenses

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Tax and surcharge	949	1,021
Staff costs	7,911	9,487
Office expenditures and travel expenses	3,285	1,963
Operating lease charges	3	4
Depreciation and amortization expenses	3,353	4,138
Consulting and professional service fees	6,045	3,764
Business development expenses	3,960	3,970
Advertising expenses	260	1,799
Others	758	793
	<hr/>	<hr/>
Total administrative expenses	<u>26,524</u>	<u>26,939</u>

Our staff costs accounted for approximately 35.2% and 29.8% of the total administrative expenses for the six months ended 30 June 2022 and 2023, respectively. Our administrative expenses decreased from RMB26.9 million for the six months ended 30 June 2022 to RMB26.5 million for the six months ended 30 June 2023, which was mainly due to decrease for both staff costs and advertising expenses as compared with the corresponding period last year.

Income tax

Our income taxes for the six months ended 30 June 2022 and 2023 were RMB20.6 million and RMB20.9 million, respectively, and our effective tax rates were 26.3% and 26.2%, respectively.

Profit and total comprehensive income for the period

We had profit and total comprehensive income for the period of RMB57.8 million and RMB58.8 million for the six months ended 30 June 2022 and 30 June 2023, respectively.

Liquidity and capital resources

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

As at 30 June 2023, our balance of interest-bearing borrowings was approximately RMB641.5 million (31 December 2022: RMB759.9 million).

Working Capital Management

Cash flows

Net cash generated from operating activities

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

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

Our net cash generated from operating activities for the six months ended 30 June 2023 was RMB265.9 million. Our net cash generated from operating activities reflect: (i) our profit before tax of RMB79.6 million, adjusted for non-cash and non-operating items, primarily including reversal of impairment losses of RMB22.8 million, depreciation and amortization of RMB3.4 million, interest expenses of RMB25.3 million, exchange losses of RMB13.9 million; (ii) the effect of changes in working capital, primarily including a decrease in gross loans and advances to customers of RMB212.0 million, a decrease in interest receivables and other assets of RMB2.3 million, and an increase in accruals and other payables of RMB3.8 million; and (iii) income tax paid of RMB44.0 million.

Net cash used in investing activities

For the six months ended 30 June 2023, our net cash used in investing activities was RMB18 thousand, mainly consisted of payment for the purchase of fixed assets of RMB19 thousand and partially offset by the proceeds from disposal of fixed assets of RMB1 thousand.

Net cash used in financing activities

For the six months ended 30 June 2023, our net cash used in financing activities was RMB166.5 million. Our net cash used in financing activities mainly consisted of (i) payment of interest-bearing borrowings of RMB306.8 million, partially offset by the interest-bearing borrowings received amounted to RMB174.4 million; (ii) the payment of interest on borrowings amounted to RMB24.4 million; (iii) the payment of lease charge amounted to RMB1.5 million; and (iv) the payment to non-controlling shareholders of subsidiaries for equity transfer of RMB8.2 million.

Cash management

As our business primarily relies on our available cash, we normally set aside a sufficient amount of cash for meeting general working capital needs, such as administrative expenses and payment of interests on borrowings from banks and other non-bank institutions, and use the remainder for granting loans to our customers. As at 31 December 2022 and 30 June 2023, total cash and cash equivalents amounted to RMB16.6 million and RMB116.0 million, respectively.

Cash and cash equivalents

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Cash in hand	3	2
Cash at banks	115,965	16,587
Other currencies in cash	<u>42</u>	<u>6</u>
Cash and cash equivalents	<u>116,010</u>	<u>16,595</u>

Loans and advances to customers

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Corporate loans	1,028,178	1,110,479
Retail loans	1,560,334	1,703,428
Micro-loans granted online	<u>28,596</u>	<u>26,915</u>
Sub-total	2,617,108	2,840,822
Accrued interest	<u>29,102</u>	<u>22,934</u>
Gross loans and advances to customers	<u>2,646,210</u>	<u>2,863,756</u>
Allowances for impairment losses	<u>(183,607)</u>	<u>(209,451)</u>
Net loans and advances to customers	<u>2,462,603</u>	<u>2,654,305</u>

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

As at 31 December 2022 and 30 June 2023, our overdue loan amounted to RMB133.6 million and RMB118.0 million, respectively, both accounting for 4.7% and 4.5% of our gross loans and advances to customers as at the same dates.

The following table sets out our loan portfolio by security as at the dates indicated:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Unsecured loans ⁽¹⁾	29,555	27,917
Guaranteed loans	2,559,627	2,782,373
Collateralized loans	8,690	10,542
Pledged loans	19,236	19,990
Sub-total	2,617,108	2,840,822
Accrued interest	29,102	22,934
Gross loans and advances to customers	<u>2,646,210</u>	<u>2,863,756</u>

Note:

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

The majority of our loans were guaranteed loans, which accounted for 97.9% and 97.8% of our gross loans and advances to customers (excluding accrued interest) as at 31 December 2022 and 30 June 2023, respectively. The type of collateral for the collateralized loans provided by us to our customers is mainly real estate, which mainly represents properties. The type of collateral for the pledged loans provided by us to customers is mainly equity.

Other Assets

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Prepayment	806	786
Others	818	695
Total other assets	<u>1,624</u>	<u>1,481</u>

Accruals and other payables

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Accrued staff costs	2,787	5,375
Value-added tax payable	1,787	2,834
Tax and surcharges and other taxation payable	1,815	1,597
Guarantee deposit	5,117	5,000
Auditors' remuneration payable	849	2,198
Commission payables of obtaining interest-bearing borrowings	3,058	2,176
Other payables	2,707	2,100
Total accruals and other payables	<u>18,120</u>	<u>21,280</u>

As at 30 June 2023, as compared to 31 December 2022, our accrued expenses and other payables decreased by RMB3.2 million, mainly due to the decrease in accrued staff costs and decrease in value-added tax payables.

Current taxation

Our current taxation refers to our income tax payable, amounted to RMB43.0 million and RMB20.0 million, respectively as at 31 December 2022 and 30 June 2023, respectively.

Capital commitments

As of 30 June 2023, there was no capital commitment of the Group (31 December 2022: Nil).

Key Financial Indicators

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

	For the six months ended 30 June 2023	For the year ended 31 December 2022
Return on weighted average equity (%)	5.8⁽²⁾	5.0
Average return on assets (%) ⁽¹⁾	4.3⁽²⁾	3.6

Notes:

- (1) Represents profit for the period/year divided by average balance of total assets as at the beginning of the year and end of the period/year.
- (2) Derived by dividing the actual number by 6 and multiplying by 12 on the annualised basis.

Gearing Ratio

	As of 30 June 2023	As of 31 December 2022
Gearing Ratio (%) ⁽¹⁾	27.5	39.2

Note:

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

Our gearing ratio decreased, mainly due to the decrease in the interest-bearing borrowings and the increase in cash and cash equivalents as of 30 June 2023 as compared with that of 31 December 2022.

Related Party Transactions

For the six months ended 30 June 2023, Mr. Yu Yin, an executive Director and the chairman of the Board, and other related parties had guaranteed some of our interest-bearing borrowings. As at 30 June 2023, the amount of guarantee provided by Mr. Yu Yin and other related parties amounted to RMB148.5 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). As the guarantees were provided on

normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the said provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

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

For the six months ended 30 June 2023, the Company and Jinhui Micro-finance (a non-wholly owned subsidiary of the Company) leased properties from Zuoli Holdings with a depreciation on right-of-use assets and interest expense of RMB1.1 million. The entering into of the lease agreements allows the Company and Jinhui Micro-finance to maintain their operational needs. The utilities and management fees of RMB0.6 million were paid to Zuoli Holdings and its subsidiary. 德清普華能源股份有限公司 (Deqing Puhua Energy Company Limited*) (“**Puhua Energy**”) is a controlling shareholder (“**Controlling Shareholder**”) and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transactions constituted connected transactions under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios (as set out in Rule 14.07 of the Listing Rules) calculated with reference to the annual caps under the lease exceed 0.1% but are less than 5%, the transaction contemplated under the lease is subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company had duly announced the said transaction on 7 July 2020 and 10 July 2020.

Save as disclosed above, for the six months ended 30 June 2023, there was no other connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

Indebtedness

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Interest-bearing borrowings	<u>641,540</u>	<u>759,932</u>

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

Off-balance Sheet Arrangements

As at 30 June 2023, we did not have any off-balance sheet arrangements (31 December 2022: nil).

Employment and Emoluments

As at 30 June 2023, the Group had approximately 95 employees (31 December 2022: 94). Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid, which are commensurate with the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance, etc.

Significant Investment

The Group had no significant investments held during the six months ended 30 June 2023.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no acquisition or disposal of subsidiaries, associates or joint ventures for the six months ended 30 June 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

Other than the bank loans we obtain from commercial banks, we may also consider conducting financing, transfer and repurchase financing of certain loans on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*), offshore financing or other investments plans or choices. Nevertheless, as at the date of this announcement, we did not have any firm intention or formulate any specific plan on material external debt financing in the short term.

FOREIGN CURRENCY RISK

Foreign exchange risk arises when business transaction or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates in the PRC. The exposure to foreign exchange risk mainly arises from bank deposits in EUR or HKD and foreign borrowings in EUR. The Group was not exposed to foreign exchange risk arising from any other currency risk. The management will continue to monitor the exposure to foreign exchange and adopt prudent measures to minimize exchange risk.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any significant contingent liabilities (31 December 2022: nil).

PROSPECTS

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

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

Meanwhile, Huzhou is the birthplace of the important thought that "lucid waters and lush mountains are invaluable assets" and the experimental area of the national green finance reform and innovation as well as the national sustainable development innovation zone, and is one of the best cities in Zhejiang Province and even the country in respect of financial ecological environment, which bring us a better opportunity to explore green development.

Under the opportunity of constructing a common prosperity demonstration zone in Zhejiang province and led by the concept of “lucid waters and lush mountains are invaluable assets”, we seize the opportunity of reform and innovation to actively explore a sustainable development road of green credit and continue to introduce innovative loan products, broaden business channels, enhance our market penetration and increase our competitive advantages by utilizing the advantage of our capital base. Since being listed as the first pilot unit of green micro-finance company in Huzhou in April 2020, as the main drafter, we participated in the formulation of “Green Micro-finance Company Construction and Evaluation Standard” (Zhejiang Province Huzhou Local Standard) (《綠色小額貸款公司建設與評價規範》(浙江省湖州市地方標準)), which has been officially issued and implemented in June 2020. The pilot construction of green micro-finance and implementation of its standards will help the Group to (i) further discover the potential customers of green micro-finance; (ii) better serve the growth of AFR (三農), as well as small and micro enterprises which are low-carbon and environmental friendly; and (iii) further increase the market share.

In addition, to better discover and explore green finance market and achieve the goal of sustainable operation and development of inclusive and green finance, we cooperated with institutions including DEG, a wholly-owned subsidiary of KfW Bankengruppe, GCPF (Global Climate Partnership Fund), which inspired the Company with international-leading green finance ideas and provided technological support, assisting the Company in developing more green finance products, and thus enabling us to better serve our green finance customers.

In May 2023, we have passed the acceptance test for pilot green micro-finance company and became the first green micro-finance company in Huzhou City,

USE OF PROCEEDS

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

CORPORATE GOVERNANCE

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

As of the date of this announcement, the Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 June 2023, the Company has fully complied with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS (THE “MODEL CODE”)

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors and supervisors of our Company. After specific enquiry with all the Directors and supervisors of the Company, they have confirmed fully compliance with the relevant standards stipulated in the Model Code throughout the six months ended 30 June 2023.

Any employee of the Company or director or employee of a subsidiary of the Company who, because of his office or employment in the Company, is likely to be in possession of inside information in relation to the securities of the Company, has also been requested not to deal in securities of the Company when he/she would be prohibited from dealing by the Model Code as if he/she was a director.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

The Group has not purchased, sold or redeemed any of the Company’s listed securities for the six months ended 30 June 2023.

INTERIM DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2023 (2022: nil).

EVENTS AFTER THE PERIOD

On 6 July 2023, the Company (as lessee) and Zuoli Holdings (as lessor) entered into a lease agreement, pursuant to which Zuoli Holdings has agreed to lease a property located in Deqing to the Company for a term of three (3) years commencing from 7 July 2023 and ending on 6 July 2026 (both days inclusive).

On the same day, Jinhui Micro-finance (a non-wholly owned subsidiary of the Company) (as lessee) and Zuoli Holdings (as lessor) also entered into a lease agreement, pursuant to which Zuoli Holdings has agreed to lease a property located in Deqing to Jinhui Micro-finance for a term of three (3) years commencing from 7 July 2023 and ending on 6 July 2026 (both days inclusive).

Puhua Energy is a controlling shareholder of the Company and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules.

According to the Hong Kong Financial Reporting Standard 16 “Leases” issued by the Hong Kong Institute of Certified Public Accountants applicable to the Group, the Group (as the lessee) should recognize the leased properties as right-of-use assets and lease liabilities in the Group’s consolidated statement of financial position. Each of the transactions contemplated under the aforesaid lease agreements are regarded as an acquisition of assets under the Listing Rules and therefore constitute connected transactions of the Company under Chapter 14A of the Listing Rules and were aggregated under Rule 14A.81 of the Listing Rules.

The values of the right-of-use assets recognized under the aforesaid lease agreements are approximately RMB1,633,056.58 and RMB4,898,918.30, therefore, the total value of the right-of-use assets recognized is approximately RMB6,531,974.88 (“**Total Value of Right-of-Use Assets**”). The amount of lease liabilities recognized should be the same as the Total Value of Right-of-Use Assets recognized.

As the highest applicable percentage ratio of Total Value of Right-of-Use Assets in relation to the transactions contemplated under the aforesaid lease agreements exceeds 0.1% but is less than 5%, the transactions are subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

For details, please refer to the announcement of the Company dated 6 July 2023.

Save as disclosed above, there were no other significant events after 30 June 2023 and up to the date of this announcement.

CHARGE OF DOMESTIC SHARES BY SUBSTANTIAL SHAREHOLDER

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

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

On 21 April 2023, Puhua Energy notified the Company that the said share charge was fully released upon full repayment of the relevant facility. On the same date, Puhua Energy also notified the Company that it has charged 293,130,000 domestic shares, representing 24.84% of the total issued share capital of the Company, in favour of Zhegu (Hangzhou) Corporate Management Company Limited* as security for a facility provided to Puhua Energy.

For details of the above, please refer to the announcements of the Company dated 8 April 2019, 11 May 2021 and 21 April 2023, respectively.

AUDIT COMMITTEE

The Interim Results has been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zlkcx.com.cn). The interim report for the six months ended 30 June 2023 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

By order of the Board
佐力科創小額貸款股份有限公司
(**Zuoli Kechuang Micro-finance Company Limited***)
YU Yin
Chairman

Hong Kong, 18 August 2023

As at the date of this announcement, the executive Directors are Mr. Yu Yin, Mr. Zheng Xuegen, Mr. Yang Sheng and Ms. Hu Fangfang; the non-executive Director is Mr. Pan Zhongmin; and the independent non-executive Directors are Mr. Chan Kin Man, Mr. Zhao Xuqiang and Ms. Yang Jie.

* *For identification purpose only*