



盛業資本
SHENG YE CAPITAL

盛業資本有限公司 SHENG YE CAPITAL LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 6069



2020

INTERIM REPORT

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FINANCIAL HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

- The unaudited income from factoring and other services of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020 was RMB323.5 million representing an increase of approximately 36%, as compared to RMB237.5 million for the six months ended 30 June 2019.
- The unaudited profit after tax for the six months ended 30 June 2020 was RMB182.7 million representing an increase of approximately 46%, as compared to the profit after tax of approximately RMB124.9 million for the six months ended 30 June 2019.
- Unaudited basic and diluted earnings per share for six months ended 30 June 2020 was RMB20 cents and RMB20 cents respectively (six months ended 30 June 2019: basic and diluted earnings per share of RMB14 cents and RMB13 cents respectively).
- The Board does not recommend the payment of a dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

CORPORATE INFORMATION

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BOARD OF DIRECTORS

Executive Directors

Mr. Tung Chi Fung (Chairman)
Mr. Chen, Jen-Tse

Independent Non-executive Directors

Mr. Hung Ka Hai Clement
Mr. Loo Yau Soon
Mr. Tsoon Wai Mun, Benjamin
Mr. Fong Heng Boo

AUDIT COMMITTEE

Mr. Hung Ka Hai Clement (Chairman)
Mr. Tsoon Wai Mun, Benjamin
Mr. Loo Yau Soon

NOMINATION COMMITTEE

Mr. Tung Chi Fung (Chairman)
Mr. Tsoon Wai Mun, Benjamin
Mr. Hung Ka Hai Clement

REMUNERATION COMMITTEE

Mr. Loo Yau Soon (Chairman)
Mr. Tung Chi Fung
Mr. Hung Ka Hai Clement

COMPANY SECRETARY

Mr. Wang Zheng

AUTHORISED REPRESENTATIVES

Mr. Tung Chi Fung
Mr. Wang Zheng

REGISTERED OFFICE

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COMPANY'S WEBSITE ADDRESS

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Futian, Shenzhen 518048, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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89 Queensway, Admiralty, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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PO Box 1350, Clifton House, 75 Fort Street
Grand Cayman KY1-1108, Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
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88 Queensway, Hong Kong

LEGAL ADVISER

TC & Co.
Units 2201-3, Tai Tung Building
8 Fleming Road, Wan Chai, Hong Kong

STOCK CODE

6069

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. About Sheng Ye Capital

Sheng Ye Capital (the “**Group**” or “**SY Capital**”) is a leading data-driven supply chain financial services provider in China and is the first commercial factoring company listed on the Main Board of the Stock Exchange of Hong Kong Limited. Powered by fintech and an in-depth understanding of the industries it serves, SY Capital offers a range of flexible account receivable (“**AR**”)-based financing products and corporate services to meet the vast financing needs of underserved small, medium and micro enterprises (“**SMEs**”) in the region. The Group aims to become the most reliable data-driven supply chain fintech platform in Asia.

As of 30 June 2020, SY Capital had been included in the MSCI Small Cap China Index, the Hang Seng Composite Index and the Shenzhen-Hong Kong Stock Connect. Its major long-term institutional investors include Olympus Capital Asia, China Taiping, and Pavilion Capital, which is a wholly owned subsidiary of Temasek.

Fintech-driven Business Model

The Group has strategically collaborated with a number of large blue-chip core enterprises in the infrastructure, energy and medical sectors where SY Capital is able to integrate with core enterprises’ procurement systems and provide efficient financing services that are tailored to their upstream SME suppliers. The Group’s digitalized fintech solutions enhance efficiency, its proprietary data-driven risk control system mitigates the risk of fraud, and its closed-loop accounts monitoring system helps minimize embezzlement risk, all of which have enabled the Group to achieve a 0% non-performing loan (“**NPL**”) ratio since inception and an extension rate of 0.76% in the first half of 2020.

The Group’s proprietary cloud-based factoring platform, known as “Easy Factoring”, incorporates technology such as electronic signatures, optical character recognition (OCR), big data analytics, video authentication and facial recognition to ensure a seamless customer experience for online applications and the approval process.

As a leading fintech player in the supply chain financing market, the Group is dedicated to driving innovation through continual research and development (“**R&D**”). Sheng Ye Information Technology Service (Shenzhen) Co, Ltd, a wholly owned subsidiary of the Group, has been awarded the National High-Tech Enterprise in China. Meanwhile, IT engineers account for 37% of the Group’s total staff. With a vision of building a comprehensive and efficient fintech-driven supply chain financing ecosystem, SY Capital not only leverages its deep industry knowledge and R&D strength to provide software-as-a-service (“**SaaS**”) to its partners which include core enterprises, SME borrowers and financial institutions, but also provides more flexible products such as financing upon goods delivery.

The Group’s robust and proven risk management system has gained the trust of 34 funding partners across the region, 18 partners more compared to that at the end of the first half of 2019. In addition to direct lending from banks, the Group is able to sell to financial institutions, such as trust companies factoring assets with non-recourse at gains, in order to put capital back to work and capture more market share. The demand for the Group’s supply chain credit products surged in the first half of 2020 due to the relatively low interest rate environment and ample liquidity in the market. Furthermore, the Group also initiated SME-based loan facilitation in collaboration with banks, where banks lend directly to SMEs by tapping SY Capital’s efficient customer acquisition channels and data-driven fintech capabilities so that both groups can control and share risk together. In return, SY Capital receives fees for IT support, account receivable management and guarantee services. The risk control process is identical for the underlying assets for both factoring asset sales and SME-based loan facilitation. These two innovative funding initiatives allowed SY Capital to rely less on its balance sheet, and enabled it to expand faster with an asset-light model while reaching out to more customers.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is also an innovator in asset-backed securities (“**ABS**”). As the first issuer of medical AR ABS in China in 2018, the Group has started to facilitate the ABS issuance of large corporations by leveraging its proprietary cloud-based securitization platform to provide IT support, AR securitization and asset management services. By the end of the first half of 2020, the Group had backed and facilitated more than RMB11 billion in ABS issuance cumulatively. Services income generated from ABS facilitation during the first half of 2020 grew 600% year-on-year to RMB9.3 million.

For the first half of 2020, the Group transferred over RMB13 billion in AR turnover and deployed RMB6.5 billion of total loans. In the first half of 2020, it served more than 4,000 SME customers, including both commercial factoring and ABS services.

2. First Half 2020 Performance

As the first publicly traded and leading third-party commercial factoring company in China, SY Capital reinforced its leading position in the market with stellar results in the first half of 2020. In addition, the factoring industry also garnered more support and has been provided a clearer regulatory framework which allows the Group to capture the growing supply chain financing demand from SMEs. For example, the China Banking and Insurance Regulatory Commission (“**CBIRC**”), the governing body for non-banking and banking institutions, released its first official factoring regulatory notice, and the passage of the Civil Code of the People’s Republic of China (the “**Civil Code**”) by the legislators that legitimizes factoring contracts in China.

Limited Covid-19 Impact

Covid-19 continues to be a significant risk for the global economy in 2020, although pockets of second and third wave infections in Asia seem to be much more contained than elsewhere in the world. However, when the pandemic first hit Asia in early 2020, the supply chain saw huge disruptions. In the midst of this disruption, the Group helped its SME customers get through a difficult time, including allowing loan extensions and waiving extension fees to free up more capital for their working capital needs. In addition, the Group’s 100% online loan application process allowed SME customers to obtain loans remotely and seamlessly during this time.

The Chinese government also put in place various measures to help SMEs regain their footing, and recognized the importance of supply chain financing to better support the underserved SMEs. A particular area that was emphasized was the importance of leveraging technology to improve financing efficiency and minimize credit risk. Fintech-driven supply chain financing companies such as SY Capital play a pivotal role in the financial inclusion scheme by serving SMEs that often fall outside of the banks’ purview. As such, the supply chain financing sector remained resilient during the period. In addition, the three sectors on which the Group focuses remained more resilient and stable during the pandemic. The medical sector saw demand surge, and the infrastructure and energy sectors saw temporary disruptions but quickly rebounded given that they are pillars of Chinese economy. Total loans disbursed by the Group in the first half of 2020 rose 33% year-on-year.

China’s economy rebounded in the second quarter, with GDP increasing 3.2% versus negative 6.8% in the first quarter, and was underpinned by robust demand from state-funded infrastructure projects. Capacity utilization in the second quarter returned to 74%, which was close to the usual trend range of 76-78% over the past few years, which indicates that the economy has largely returned to normal.

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Commercial Factoring Demand Remained High

As China's economy slows, the percentage of credit sales continued to rise and credit terms further extended, which caused accounts receivable to expand. According to the China National Bureau of Statistics, accounts receivable for industrial enterprises in China reached RMB17.4 trillion in 2019 from RMB14.3 trillion in 2018. Commercial factoring in China grew 15% to RMB1.4 trillion in 2019, while traditional institution factoring volume declined, according to the latest report from Frost & Sullivan. Specifically, third-party commercial factoring volumes grew at a 78% CAGR from 2014 to 2019. A recent study by Coface¹ also showed that the energy and infrastructure sectors in China had the longest average credit terms of 96 and 107 days in 2019, respectively, and both increased incrementally year-on-year. Therefore, there have been an increase in the demand for factoring services in China, especially from SMEs to fund their working capital needs, particularly at the earlier stages of their lengthening settlement cycles. The Group specifically targets companies in the energy and infrastructure sectors, as well as the medical sector where credit term averages 84 days, due to their long payment cycles. The energy and infrastructure sectors are also highly capital intensive and have fragmented suppliers. Factoring helps to bridge the financing gap in the supply chain. The medical industry saw a surge in demand during the Covid-19 pandemic, which also caused factoring demand to rise rapidly.

Market Consolidation after Issuance of Notice 205

After the Notice 205 (the first official regulatory paper on factoring that sets industry regulations and gave support to third-party commercial factoring companies) was released by the CBIRC, the Chinese financial regulatory bureaus took measures to clear out unqualified factoring companies and maintain strict control on new registrations. As of the end of 2019, the total number of registered factoring companies in China dropped to 10,724 from 11,541 as of the end of 2018, according to the Commercial Factoring Expertise Committee (CFEC) of China. The Group believes it is well-positioned to benefit from market consolidation as regulations tighten.

One of the core rules of Notice 205 restricts AR factoring from a single debtor and related parties to less than 50% and 40% of total loan book, respectively. This is favorable to independent third-party commercial factoring players such as SY Capital, and will allow the Group to explore new collaborations with corporate-backed factoring companies.

Industry Takes Big Step Forward with Inclusion of Factoring Contract Chapter in Civil Code

The inclusion of a Factoring Contract Chapter in the Civil Code, which will be enforced on 1 January 2021, not only made China the first country in the world to clearly define factoring contracts as a typical independent contract, but also affirmed the support and importance of the factoring industry from the Chinese government.

Given the industry pain points, the specific provisions of the Civil Code have established rules to clear major obstacles for the development of the industry. These provisions are of great significance in expanding the potential of the factoring market, preventing industry risks, and will play a highly positive role in promoting and standardizing the development of China's factoring industry.

Infrastructure, Energy and Medical Sectors – the Group's main areas of focus, Remain Resilient

According to the National Bureau of Statistics, the infrastructure industry rebounded sharply and grew 7.8% year-on-year in the second quarter of 2020, after a decline in the first quarter as the Covid-19 pandemic halted progress on many projects. The Group collaborated with Fortune 500 core enterprises that are the dominant leaders in the infrastructure market in China and remained resilient during the pandemic outbreak. For the remainder of 2020, the infrastructure market looks promising when compared to the first half of the year as local governments in China made huge stimulus investments in infrastructure, including "new infrastructure" projects (e.g. 5G networks, big data centers, internet of things networks, etc.), areas where the Group is exploring new opportunities, in an effort to boost GDP growth.

¹ <https://www.coface.com/News-Publications/Publications/China-Payment-Survey-2020-Payment-delays-will-increase-further-because-of-COVID-19>

MANAGEMENT DISCUSSION AND ANALYSIS

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Since the full implementation of a two-invoice policy back in 2018, the medical sector has experienced market consolidation in an effort to drive more sustainable development. This sector is on a long-term structural uptrend due to China's aging population and growing middle class. Fueled by a surge in demand for medical services during the Covid-19 outbreak, the entire industry grew rapidly in the first half of 2020. The Group works with blue-chip medical logistics enterprises to provide funding to medicine and medical equipment suppliers.

The energy sector saw price fluctuations in the first half of 2020. However, the Group selectively works with large blue-chip energy core enterprises that lock up prices in advance and do not trade derivatives. As such, the Group strategically allocated more capital to this stable sector during the first half of 2020.

Enhancing Risk Control with Direct Integration of the People's Bank of China's ("PBoC") Credit Reporting System

Following the integration of the Movables Financing Registry Portal from the Credit Reference Center of the People's Bank of China (known as "Zhongdengwang") in 2019, the Group further enhanced its risk control capabilities after its wholly owned subsidiary, Sheng Ye Factoring Limited, formally integrated the credit reporting system of the People's Bank of China ("PBOC Credit Reporting System"). SY Capital can now access credit reports of SME clients automatically. SY Capital is among the few commercial factoring companies that have formally integrated with the PBOC Credit Reporting System.

Fintech-driven SME-based Loan Facilitation Gained Traction

Leveraging the Group's core competencies in data-driven management and efficient customer acquisition, the Group's banking partners are now able to lend directly and reach out to more SME customers. The Group renewed its credit facilities with both the China Construction Bank and the Ningbo Commerce Bank for RMB1 billion and RMB0.5 billion respectively, during the first half of 2020 to continue its SME-based loan facilitation initiatives. This is in support of the Chinese government's call to strengthen collaboration among banks and fintech service providers to better serve SMEs during the Covid-19. The Group booked income from loan facilitation of RMB7.9 million in the first half of 2020, up 3 times from RMB2.6 million in the second half of 2019 when it began cooperating with the banks. Income is expected to accumulate when more credit is drawn and fees are generated in the second half of 2020.

Factoring Loans Disbursed Continued to Grow

During the first half of 2020, the Group disbursed RMB6.5 billion in loans to SME customers, a 33% year-on-year rise that was unhindered by the Covid-19. This resulted in interest income from factoring services of RMB226 million.

Enhancing Capital Turnover with Sales of Factoring Assets

In order to drive optimal funding, support increasing customer financing demand and capture more market share, the Group sold factoring assets to financial institution partners that are seeking for supply chain fixed income products. Driven by the low interest rate environment, relatively ample liquidity, and SY Capital's proven track record, the Group is able to capitalize on strong demand and recorded a gain on the sale of factoring assets in the first half of the year of RMB75 million, a rise of 109% year-on-year. This is expected to become a recurring and efficient funding source that helps the Group enhance capital efficiency and rely less on its balance sheet to fuel growth.

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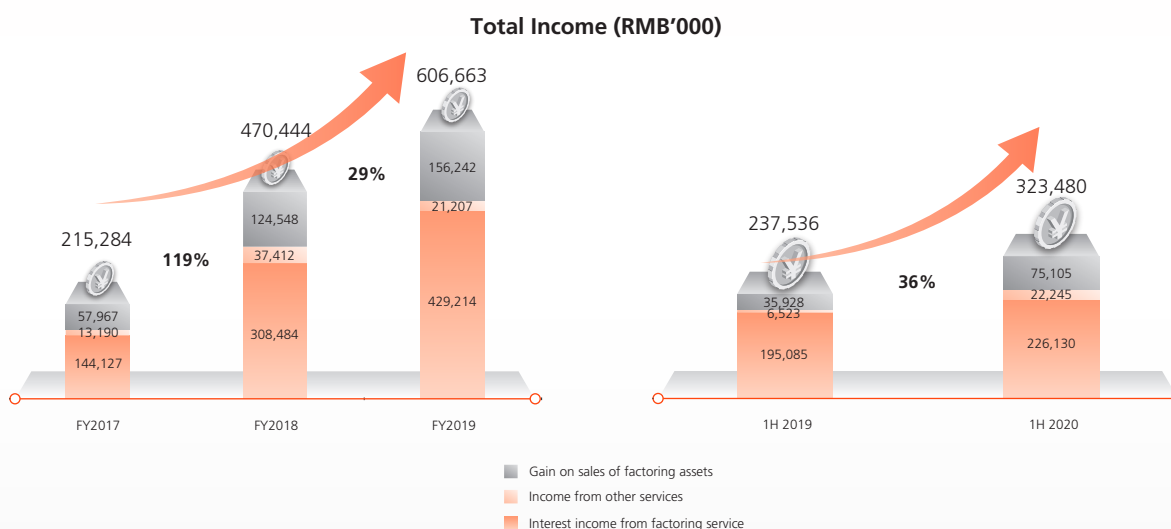
Diversification of Funding Channels

With a proven track record and strong fintech capabilities, the Group attracted both existing and new funding partners during the first half of 2020 as more financial institutions which explore SME supply chain financing partnered with SY Capital. To further beef up leverage, the Group has explored new funding channels, such as loan syndication, asset-backed bond issuance, credit fund partnership with asset management companies, and more overseas funding sources. The number of funding sources at 30 June 2020 increased to 34 when compared to 16 as at 30 June 2019.

FINANCIAL REVIEW

Income From Factoring And Other Services

The Group continued to see strong double-digit top and bottom-line growth in the first half of 2020. Income from factoring and other services reached RMB323 million during the period under review, an increase of 36% compared with that of the same period in 2019. Within this: a) interest income from factoring service reached RMB226 million, an increase of 16% year-on-year, b) income from other services, which included loan facilitation income as well as supply chain information technology management service income from partnering ABS issuers, reached RMB22 million, an increase of 241% year-on-year, c) gain on sales of factoring assets reached RMB75 million, an increase of 109% year-on-year. This demonstrates that the Group is benefiting from its fintech capabilities as it moves towards an asset-light model that is less affected by potential constraints imposed by balance sheet funding.



Other Gains

The Group booked other gains of RMB42 million in the first half of 2020 mainly due to the fair value gain on financial assets it entered into in relation to the equity tranche of AR-based ABS issuance of a blue-chip corporation that the Group assisted leveraging on its fintech capabilities to enhance ABS issuance efficiency and certainty.

MANAGEMENT DISCUSSION AND ANALYSIS

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Expenses

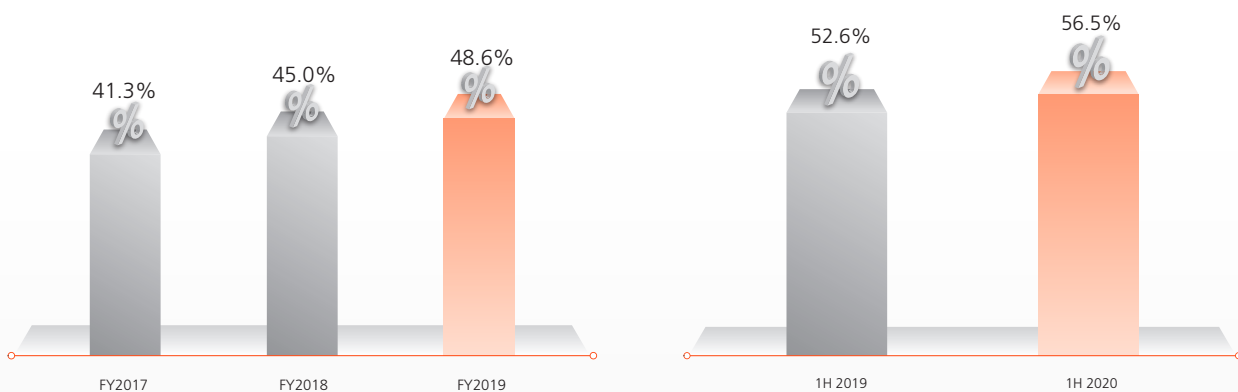
The Group increased its R&D capitalised and expensed spending by 20% during the period under review to strengthen its fintech solutions and the Easy Factoring SME-based platform. IT engineers rose over 60% year-on-year, accounting for 37% of the total staff, at the end of the first half of 2020. This compares with 34% at the end of June 2019. Total staff cost recognized in profit or loss in the first half of 2020 was RMB45 million, an increase of 58% year-on-year due to a rise in headcount as well as bonuses. Other operating expenses mainly comprise R&D costs, depreciation of right-of-use assets and amortisation of intangible assets. Other operating expenses recognised in profit or loss in the first half of 2020 was RMB43 million, an increase of 38% year-on-year due to the increase in R&D costs, depreciation of right-of-use assets and amortisation of intangible assets incurred as a result of business expansion.

The operational cost-to-income ratio for the first half of 2020 was 26.5%, excluding one-time expenses associated with the application for a Singapore digital wholesale banking license. This compares with 24.6% in the same period of 2019. The Group is still in high-growth stage with a need to recruit talents to further improve efficiency and customer experience. However, as a fintech player with established systems, the Group is able to drive scale and growth without significant expansion in headcounts. As such, cost-to-income is expected to decline over the coming years as a result of economics of scale.

Net Profit

Net profit in the first half of 2020 was RMB183 million, an increase of 46% year-on-year. Net profit margin was 56.5%, which was 3.9 percentage points higher than that of the same period last year, and 10.4 percentage points higher than that of the second half of 2019.

Net Profit Margin



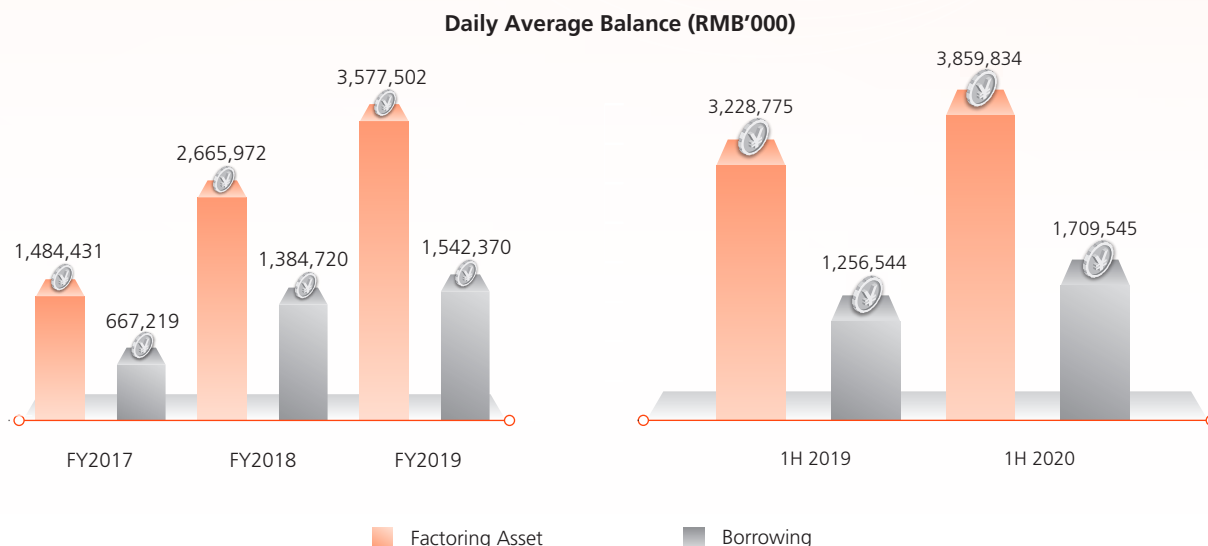
Factoring Assets At Fair Value through Other Comprehensive Income ("FVTOCI")

Factoring assets at FVTOCI as of 30 June 2020 were RMB3,948 million, a 9% increase year-on-year. Daily average factoring assets over the first half of 2020 were RMB3,860 million, a 20% increase over the same period in 2019. Based on daily average factoring assets, interest yield on factoring assets in the first half of 2020 was 11.7%, which was 0.4 percentage points lower year-on-year, mainly due to (i) a lower mix of higher-yield financing upon goods delivery products in the infrastructure sector because of project delays during the first quarter; and (ii) higher allocation to the lower-yield products in the medical sector to support medical suppliers during the pandemic.

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Borrowings

Borrowings as of 30 June 2020 was RMB1,882 million, a 13% increase year-on-year. Daily average borrowings over the first half of 2020 was RMB1,710 million, a 36% increase year-on-year. The increase in finance cost of RMB19 million year-on-year was due to an increase in borrowings to finance the Group's business expansions.



BUSINESS OUTLOOK AND PROSPECTS

Given the current macro uncertainty and continued pockets of resurgence of the Covid-19, the Chinese government will continue to push for faster adoption of digitization in supply chain financing to better facilitate financial inclusivity across SMEs. As a fintech company, SY Capital will continue to leverage its deep industry knowledge and data-driven risk management to enhance liquidity in the economy. SY Capital's primary focus remains on the infrastructure, energy and medical sectors, which are pillars of China's domestic economy. Within SY Capital's top 10 blue-chip core enterprise partners, the Group has only addressed less than 1% of the potential suppliers, so there remains a huge potential within China. In addition, the Group is exploring new ways to collaborate with its core enterprise partners and SME customers by providing SaaS for accounts receivable management, invoice authentication, and procurement management solutions to create a data-driven ecosystem that makes supply chain financing more flexible and cost-efficient. The Group is also exploring new potential sectors with long payment cycles and fragmented suppliers.

As companies around the world continue to shift towards a more geographically diversified supply chain strategy, supply chain financing companies need to address these new opportunities. With a vision of becoming a leading supply chain fintech platform in Asia, the Group has implemented plans to expand to South East Asia ("SEA"). The Group is in the application process for a digital wholesale banking license in Singapore, and has partnered with a reputable consortium of members, including Phillip Capital and Advance.AI. As a leading securities and financial services firm with a long history in Singapore and SEA, Phillip Capital brings deep regional knowledge and a large SME client-base across the region, while Advance.AI is a leading fintech company backed by Temasek's Pavilion Capital that offers enterprise electronic know your customer (eKYC), anti-fraud and financing solutions.

MANAGEMENT DISCUSSION AND ANALYSIS

After the publication of the Notice 205, the Group has started to see more open communications with corporate-backed factoring companies, and has already entered a re-factoring collaboration with a large multinational corporate-backed factoring partner in the first half of 2020. The Group expects that the Notice 205 and additional legislation to come will bring more support to China's third-party commercial factoring companies.

Looking forward, the commercial factoring industry is expected to grow steadily in light of favorable policies and increasing funding demand from SMEs. The Group will continue to improve its funding leverage in order to drive future growth, but will do so cautiously as it continues to enhance its data-driven risk management processes. SY Capital's "one core, two wings" strategy was formulated to help the Group achieve sustainable growth. The "core" represents "supply chain financing platform", where the Group will continue to partner with more core enterprises and explore new potential funding avenues to better serve more SMEs with customized financing solutions; while the "two wings" represents "fintech innovation and "overseas expansion" to drive the next phase of growth. Over the long term, SY Capital aims to build a highly efficient supply chain financing ecosystem to drive growth that is sustainable and beneficial to all its stakeholders.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND GEARING

During the six months ended 30 June 2020, the Group's main source of funds was the cash generated from its daily operation, and new borrowings. As at 30 June 2020, the Group had bank balances and cash of RMB211.4 million (31 December 2019: RMB377.3 million), of which 98.7% (31 December 2019: 99.3%) and 0.8% (31 December 2019: 0.5%) were denominated in RMB and HK dollars respectively. Net cash from operating activities was RMB143.9 million in the first half of 2020 (for the six months ended 30 June 2019: net cash used in operating activities was RMB679.7 million), an increase of RMB823.6 million year-on-year was mainly due to the decrease in net cash used in factoring assets at FVTOCI from RMB811.9 million for the six months ended 30 June 2019 to RMB110.3 million for the six months ended 2020.

As at 30 June 2020, the Group had interest-bearing borrowings, bank overdraft and loans from related parties which amounted to RMB1,882.4 million (31 December 2019: RMB1,885.2 million). Its gearing ratio, expressed as total liabilities over owner's equity was 0.83 as at 30 June 2020 (31 December 2019: 0.85).

USE OF PROCEEDS

The Placing

On 28 June 2018, the Company, Wisdom Cosmos Limited ("**Wisdom Cosmos**"), the immediate holding company of the Company, Oversea-Chinese Banking Corporation Limited ("**OCBC**") and Macquarie Capital Limited ("**Macquarie**") (OCBC and Macquarie collectively referred to as the "**Joint Placing Agents**") entered into a placing agreement pursuant to which the Wisdom Cosmos agreed to place, through the Joint Placing Agents on a best effort basis, a maximum of 148,000,000 existing ordinary placing shares at the placing price of HK\$6.00 per placing share (the "**Placing**").

On the same date, Wisdom Cosmos and the Company entered into a subscription agreement under which Wisdom Cosmos conditionally agreed to subscribe for, and the Company conditionally agreed to issue, the ordinary subscription shares (the "**Subscription**").

The Placing and the Subscription were completed on 4 July and 11 July 2018 respectively. An aggregate of 138,484,000 subscription shares (equals to the number of the placing shares successfully placed under the Placing) were subscribed by Wisdom Cosmos at the subscription price of HK\$6.00 for each subscription share. The subscription shares represent approximately 15.76% of the issued share capital of the Company as enlarged by the allotment and issue of the subscription shares. The Company received total net proceeds of approximately HK\$819.5 million (equivalent to approximately RMB698.0 million) from the Placing and the Subscription.

MANAGEMENT DISCUSSION AND ANALYSIS

The placing price of HK\$6.00 per placing share represents: (i) a discount of approximately 16.6% to the closing price of HK\$7.19 per Share as quoted on the Stock Exchange on 28 June 2018; and (ii) a discount of approximately 17.6% to the average of the closing prices of approximately HK\$7.28 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days prior to 28 June 2018.

Use of proceeds from the Placing

During the year ended 31 December 2018, the year ended 31 December 2019 and six months ended 30 June 2020, details of the use of proceeds of the Placing were as follows:

Use of proceeds	Net proceeds raised (Approximately HK\$ million)	Actual use of net	Actual use of net	Actual use of net	Intended use and expected timeline of the remaining amount of net proceeds
		proceeds during the year ended 31 December 2018 (Approximately HK\$ million)	proceeds during the year ended 31 December 2019 (Approximately HK\$ million)	proceeds during the six months ended 30 June 2020 (Approximately HK\$ million)	
General working capital of the Group for expanding the factoring operations	757.0	757.0	-	-	The amount of the net proceeds for the general working capital of the Group for expanding the factoring operations had been fully utilised.
Developing the online factoring platform and IT system of the Group	62.5	18.5	27.4	12.3	The remaining unutilised amount of approximately HK\$4.3 million will be used for developing the online factoring platform and IT system of the Group and is expected to be fully utilised by 31 December 2020.

CAPITAL COMMITMENTS

As at 30 June 2020, the capital commitments of the Group comprised of investment in an associate of approximately RMB3.2 million, purchase of intangible assets of approximately RMB0.5 million and purchase of equipment of approximately RMB0.2 million (31 December 2019: purchase of intangible assets of approximately RMB0.6 million).

CONTINGENT LIABILITIES

Save as disclosed in note 21 of the "Notes to the condensed consolidated financial statements", the Group did not have any other guarantees or other material contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2020, the Group had pledged bank deposits of RMB175.6 million, security deposits of RMB26.4 million, pledged structured deposit of RMB9.1 million, and certain factoring assets with an aggregate carrying amount of RMB734.2 million to banks and third parties for facilities, loan facilitation platform in partnership with a bank, loans from an associate and derivative financial instruments (31 December 2019: pledged bank deposits of RMB86.4 million, security deposits of RMB9.8 million, pledged structured deposit of RMB9.0 million, and certain factoring assets with an aggregate carrying amount of RMB462.5 million to banks and third parties for facilities, loan facilitation platform in partnership with a bank and derivative financial instruments).

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

In April 2020, the Group de-registered its investment in Sheng Nuo Factoring Limited* (“**SNF**”), a subsidiary of the Company. There were no profit or loss and cash flows of SNF recognised on the condensed consolidated financial statements for the six months ended 30 June 2020.

In April 2020, the Group disposed of its 20% investment in Shenzhen Sheng Ye Non-Financing Guarantee Limited*, an associate of the Group, to an independent third party at cash consideration of RMB6,203,000, which resulted in the Group recognising a loss of RMB48,000 in profit or loss.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

In April 2020, the Group and Wuxi Tonghui Investment Co., Ltd* (“**Wuxi Tonghui**”, a subsidiary wholly owned by Wuxi Communications Industry Group Co., Ltd*, “**Wuxi Communications**”) injected additional RMB200 million capital to Wuxi Guojin Factoring Limited* (“**Wuxi Guojin**”) in proportion to the shareholding interest of Wuxi Tonghui and the Group in Wuxi Guojin in which the Group contributed capital injection in amount of RMB80 million. To jointly explore the supply chain finance opportunities in infrastructure and communications industry, the Group and Wuxi Communications (our regional leading core enterprise partner engaged in development and operation of infrastructure and transportation projects) established Wuxi Guojin in 2018.

As part of the Group’s strategy investment to partner with more core enterprises, Wuxi Guojin has recorded significant growth in both operational and financial performance since its establishment under continuous support from shareholders and is one of the leading commercial factoring companies with the largest amount of paid up capital in the region. By the end of the first half of 2020, Wuxi Guojin deployed RMB3.75 billion of total loans. The unaudited profit after tax of Wuxi Guojin reached RMB11.2 million during the period, an increase of 220.0% compared with that in the same period in 2019.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group aims to become the most reliable data-driven supply chain fintech platform in Asia under “one core, two wings” strategy. To achieve the goal, the Group will further develop the capacities and functions of supply chain financing platform. Meanwhile, the Group will continue its investment in R&D to improve fintech innovation as well as seeking business opportunities in SEA under the overseas expansion plan.

FOREIGN EXCHANGE RISKS

The Group’s exposure to foreign currency risk related primarily to bank balances, pledged structured deposit, pledged bank deposits, loan receivable, other receivables, borrowings, bank overdraft and lease liabilities that are denominated in HK\$, US\$, GBP£, S\$ and EUR€. The Group entered into cross currency swap contracts and foreign currency forward contracts during the period to manage its foreign currency risk exposures arising from certain variable-rate bank borrowings denominated in HK\$, US\$ and EUR€. The management manages and monitors this exposure to ensure appropriate measures are implemented on a timely and effective manner.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group had a total of 233 staff (As at 31 December 2019: 199 staff). Total staff costs (including Directors' emoluments) were approximately RMB55.3 million (including share option benefits RMB0.3 million) for the six months ended 30 June 2020 (for the six months ended 30 June 2019: RMB36.8 million (including share option benefits RMB5.8 million)). Remuneration is determined by reference to the market conditions and the performance, qualifications and experience of individual employees. Year-end bonuses based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to a statutory mandatory provident fund scheme and social insurance together with housing provident funds for its employees in Hong Kong and the People's Republic of China ("PRC"), respectively.

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible directors, employees and contractors of the Group, who contribute to the success of the Group's operations.

In Hong Kong, the Group participates in a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance (Cap 485 of the Laws of Hong Kong). The assets of the MPF Scheme are held separately from those of the Group and administered by an independent trustee. Under the MPF Scheme, the Group and its employees are each required to make a contribution to the MPF Scheme at 5% of the employees' relevant monthly income subject to a cap, which is currently set at HK\$1,500.

PRC employees are covered by the mandatory social security schemes operated by the PRC government. The Group is required by the PRC laws to contribute a certain percentage of payroll cost to the retirement benefits scheme to fund the benefits.

RECENT DEVELOPMENT OF REGULATORY FRAMEWORK

Since 2019, financial regulatory institutions in China has strengthened their governance on local commercial factoring companies, further regulating and promoting the compliance development of the factoring industry and providing additional policy support for commercial factoring companies that practice market-oriented operation and focus on supporting SMEs. In October 2019, CBIRC issued Notice 205, the first official regulatory paper on factoring that sets industry regulations and gave support to third-party commercial factoring companies. One of the core rules of Notice 205 restricts AR factoring from a single debtor and related parties to less than 50% and 40% of total loan book, respectively. This is favorable to independent third-party commercial factoring players such as SY Capital, and will allow the Group to explore new collaborations with corporate-backed factoring companies.

On 28 May 2020, the Civil Code was passed at the third session of the 13th National People's Congress. The inclusion of a Factoring Contract Chapter in the Civil Code, which will be enforced on 1 January 2021, not only made China the first country in the world to clearly define factoring contracts as typical independent contract, but also affirmed the support and importance of the factoring industry from the Chinese government. Given the industry pain points, the specific provisions of the Civil Code have established rules to clear major obstacles for the development of the industry. These provisions are of great significance in expanding the potential of the factoring market and preventing industry risks, and will play a highly positive role in promoting and standardizing the development of China's factoring industry.

The Directors confirmed that the Group would be able to comply with the relevant requirements above, as well as to gain more market opportunities with the support from favorable policies.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2020, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to provisions set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Interest in the Company

Name of Director	Capacity/nature of interest	Number and class of securities interested	Percentage of shareholding
Mr. Tung Chi Fung ("Mr. Tung") (Note 1)	Beneficiary of a trust and settlor of a discretionary trust	555,000,000 (L) (Note 2)	63.00%
Mr. Chen Jen-Tse	Share option	3,000,000 (Note 3)	0.34%
Mr. Hung Ka Hai Clement	Share option	200,000 (Note 3)	0.02%
Mr. Loo Yau Soon	Share option	200,000 (Note 3)	0.02%
Mr. Tsoon Wai Mun, Benjamin	Share option	200,000 (Note 3)	0.02%

Notes:

1. Wisdom Cosmos, a company incorporated in the British Virgin Islands ("BVI"), is the beneficial owner of 555,000,000 shares of the Company, representing approximately 63.00% shareholding interests in the Company. The entire issued share capital of Wisdom Cosmos is owned by Eander Limited ("Eander"), a company incorporated in the BVI, which is in turn wholly owned by TMF (Cayman) Ltd ("TMF Trust"), trustee of the Pak Jeff Trust ("PJ Trust"), an irrevocable reserved power trust established by Mr. Tung. Mr. Tung and his family members are the beneficiaries of the PJ Trust. Under the SFO, Mr. Tung, TMF Trust and Eander are deemed to be interested in all the shares of the Company registered in the name of Wisdom Cosmos.
2. The letter "L" denotes long position of the shares of the Company.
3. This refers to the number of underlying Shares covered by its share option scheme.

Save as disclosed herein, as at 30 June 2020, none of the Directors or chief executive of the Company or their associates (as defined in the Listing Rules) had any interests and short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them has taken or deemed to have taken under the provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein; or which were required, pursuant to provisions set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2020, so far as is known to the Directors, the following persons, not being Directors or chief executive of the Company had, or were deemed to have, interests or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who is directly or indirectly, to be interested in 5% or more of issued share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/nature of interest	Number and class of securities interested (Note 1)	Percentage of shareholding
TMF Trust (Note 2)	Trustee	555,000,000 (L)	63.00%
Eander (Note 2)	Interest in a controlled corporation	555,000,000 (L)	63.00%
Wisdom Cosmos (Note 2)	Beneficial owner	555,000,000 (L)	63.00%

Notes:

- The letter "L" denotes long position of the shares of the Company.
- Wisdom Cosmos, a company incorporated in the BVI, is the beneficial owner of 555,000,000 shares of the Company, representing approximately 63.00% shareholding interests in the Company. The entire issued share capital of Wisdom Cosmos is owned by Eander, a company incorporated in the BVI, which is in turn wholly owned by TMF Trust, trustee of the PJ Trust, an irrevocable reserved power trust established by Mr. Tung. Mr. Tung and his family members are the beneficiaries of the PJ Trust. Under the SFO, Mr. Tung, TMF Trust and Eander are deemed to be interested in all the shares of the Company registered in the name of Wisdom Cosmos.

Save as disclosed above, as at 30 June 2020, the Directors are not aware of any other person, other than the Directors and the chief executive of the Company who had, or was deemed to have, interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who is directly or indirectly, to be interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or options in respect of such share capital.

SHARE OPTION SCHEME

The share option scheme (the "Share Option Scheme") was adopted by the shareholders of the Company and was effective on 6 July 2017 (the "Listing Date").

(a) Purpose of the Share Option Scheme

The Share Option Scheme enables the Company to grant options to subscribe for Shares granted pursuant to the Share Option Scheme (the “**Options**”) to any full-time or part-time employee of the Company or any member of the Group, including any Executive, Non-executive Directors and Independent Non-executive Directors (the “**INEDs**”), advisors, consultants, professionals, customers, suppliers, agents or partners of the Company or any of the subsidiaries (“**Eligible Persons**”) as incentives or rewards for their contributions to the Group.

(b) Who may join and basis of eligibility

The Board may, at its discretion, invite any Eligible Persons to take up Options at a price calculated in accordance with sub-paragraph (d) below. Upon acceptance of the Option, the Eligible Person shall pay HK\$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of not less than 28 days from the date on which the Option is granted. The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the Independent Non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(c) Grant of Option

Any grant of Options must not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company’s results for any year, half-year, quarter year period or any other interim period (whether or not required under the Listing Rules), and (b) the deadline for the Company to publish an report of its results for any year, half-year, quarter-year period or any interim period (whether or not required under the Listing Rules), and ending on the date of the results report, no Option may be granted. The period during which no Option may be granted will cover any period of delay in the publication of results report. The Directors may not grant any Option to an Eligible Person during the periods or times in which Directors of the Company are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 prescribed by the Listing Rules) or any corresponding code or securities dealing restrictions adopted by the Company.

18 MANAGEMENT DISCUSSION AND ANALYSIS

The total number of Shares issued and to be issued upon exercise of the Options granted to an Eligible Person who accepts or is deemed to have accepted the offer of any Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Participant (the “**Participant**”) under the Share Option Scheme and any other share option schemes adopted by the Group from time to time pursuant to which options to subscribe for Shares may be granted (“**Other Schemes**”) (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time, and provided that if approved by Shareholders in general meeting with such Participant and his close associates (or his associates if the participant is a connected person) abstaining from voting, the Company may make a further grant of Options to such Participant (the “**Further Grant**”) notwithstanding that the Further Grant would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted under the Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time. In relation to the Further Grant, the Company must send a circular to the Shareholders, which discloses the identity of the relevant Participant, the number and the terms of the Options to be granted (and Options previously granted to such Participant under the Share Option Scheme and Other Schemes) and the information required under the Listing Rules. The number and terms (including the exercise price) of Options which is the subject of the Further Grant shall be fixed before the relevant Shareholders’ meeting and the date of meeting of the Board for proposing the Further Grant should be taken as the date of grant for the purpose of calculating the relevant subscription price.

(d) Price of Shares

The subscription price for the Shares subject to Options will be a price determined by the Board and notified to each Participant and shall be the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the Options, which must be a day on which trading of Shares take place on the Stock Exchange (“**Trading Day**”); (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five Trading Days immediately preceding the date of grant of the Options; and (iii) the nominal value of a Share. For the purpose of calculating the subscription price, in the event that on the date of grant, the Company has been listed for less than five Trading Days, the Offer Price shall be used as the closing price for any Trading Day falling within the period before the Listing Date.

(e) Maximum number of Shares

- (i) The total number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and Other Schemes must not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”) provided that Options lapsed in accordance with the terms of the Shares Option Scheme or Other Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. On the basis of 740,000,000 Shares in issue on the Listing Date, the Scheme Mandate Limit will be equivalent to 74,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date and approximately 8.40% of the Shares in Issue as at the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

- (ii) Subject to the approval of Shareholders in general meeting, the Company may renew the Scheme Mandate Limit to the extent that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and Other Schemes under the Scheme Mandate Limit as renewed must not exceed 10% of the Shares in issue as at the date of such Shareholders' approval provided that Options previously granted under the Share Option Scheme and Other Schemes (including those outstanding, cancelled, exercised or lapsed in accordance with the terms thereof) will not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. In relation to the Shareholders' approval referred to in this paragraph (ii), the Company shall send a circular to the Shareholders containing the information required by the Listing Rules.
- (iii) Subject to the approval of Shareholders in general meeting, the Company may also grant Options beyond the Scheme Mandate Limit provided that Options in excess of the Scheme Mandate Limit are granted only to Eligible Persons specifically identified by the Company before such Shareholders' approval is sought. In relation to the Shareholders' approval referred to in this paragraph (iii), the Company shall send a circular to the Shareholders containing a generic description of the identified Eligible Persons, the number and terms of the Options to be granted, the purpose of granting Options to the identified Eligible Persons, an explanation as to how the terms of such Options serve the intended purpose and such other information required by the Listing Rules.
- (iv) Notwithstanding the foregoing, the Company may not grant any Options if the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and Other Schemes exceeds 30% of the Shares in issue from time to time.

(f) Time of exercise of Option

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Board to each Participant provided that the period within which the Option must be exercised shall not be more than 10 years from the date of the grant of Option. The exercise of an Option may be subject to the achievement of performance target and/or any other conditions to be notified by the Board to each Participant, which the Board may in its absolute discretion determine.

On 11 September 2017, the Company granted 12,620,000 share options to a director and the employees of the Group to subscribe for the ordinary shares of the Company with an exercise price of HK\$4.20 per share and for a validity period of 5 years. Among the share options granted, 2,000,000 Granted Options were granted to Mr. Chen Jen-Tse, an Executive Director of the Company.

On 14 November 2018, the Company granted 8,970,000 share options to the directors, employees and other eligible persons of the Group to subscribe for the ordinary shares of the Company with an exercise price of HK\$6.90 per share and for a validity period of 5 years. Among the share options granted, 1,000,000 share options were granted to Mr. Chen Jen-Tse, an Executive Director of the Company. Mr. Hung Ka Hai Clement, Mr. Loo Yau Soon and Mr. Tsoon Wai Mun, Benjamin, the INEDs of the Company, were granted 200,000 share options each (600,000 share options in total).

The grant of Granted Options to the abovementioned Director has been approved by the INEDs pursuant to the Listing Rules. Save as disclosed above, none of the other grantees is a Director, chief executive or substantial shareholder (as defined under the Listing Rules) of the Company or any of their respective associate(s) (as defined under the Listing Rules) as at the date of grant.

MANAGEMENT DISCUSSION AND ANALYSIS

The following shows the outstanding position as at 30 June 2020 with respect to their Granted Options granted under the Share Option Scheme:

	Date of grant	Exercise price	Exercise period	Outstanding at 1 January 2020	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30 June 2020
Mr. Chen Jen-Tse	11 September 2017	HK\$4.20	11/9/2018-10/9/2022	500,000	-	-	-	500,000
			11/9/2019-10/9/2022	500,000	-	-	-	500,000
			11/9/2020-10/9/2022	1,000,000	-	-	-	1,000,000
				2,000,000	-	-	-	2,000,000
Employees	11 September 2017	HK\$4.20	11/9/2018-10/9/2022	1,061,000	-	(196,000) (Note)	-	865,000
			11/9/2019-10/9/2022	1,607,000	-	(500,000) (Note)	-	1,107,000
			11/9/2020-10/9/2022	3,770,000	-	-	(1,450,000)	2,320,000
				6,438,000	-	(696,000)	(1,450,000)	4,292,000
Mr. Chen Jen-Tse	14 November 2018	HK\$6.9	14/11/2019-13/11/2023	250,000	-	-	-	250,000
			14/11/2020-13/11/2023	250,000	-	-	-	250,000
			14/11/2021-13/11/2023	500,000	-	-	-	500,000
				1,000,000	-	-	-	1,000,000
Mr. Hung Ka Hai Clement	14 November 2018	HK\$6.9	14/11/2019-13/11/2023	50,000	-	-	-	50,000
			14/11/2020-13/11/2023	50,000	-	-	-	50,000
			14/11/2021-13/11/2023	100,000	-	-	-	100,000
				200,000	-	-	-	200,000
Mr. Loo Yau Soon	14 November 2018	HK\$6.9	14/11/2019-13/11/2023	50,000	-	-	-	50,000
			14/11/2020-13/11/2023	50,000	-	-	-	50,000
			14/11/2021-13/11/2023	100,000	-	-	-	100,000
				200,000	-	-	-	200,000

MANAGEMENT DISCUSSION AND ANALYSIS

	Date of grant	Exercise price	Exercise period	Outstanding at 1 January 2020	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30 June 2020
Mr. Tsoon Wai Mun, Benjamin	14 November 2018	HK\$6.9	14/11/2019-13/11/2023	50,000	-	-	-	50,000
			14/11/2020-13/11/2023	50,000	-	-	-	50,000
			14/11/2021-13/11/2023	100,000	-	-	-	100,000
				200,000	-	-	-	200,000
Employees and other eligible persons	14 November 2018	HK\$6.9	14/11/2019-13/11/2023	1,506,250	-	-	(420,000)	1,086,250
			14/11/2020-13/11/2023	1,506,250	-	-	(420,000)	1,086,250
			14/11/2021-13/11/2023	3,012,500	-	-	(840,000)	2,172,500
				6,025,000	-	-	(1,680,000)	4,345,000

Note: The weighted average closing price of the Shares immediately before the date on which the options were exercised during the period was HK\$4.20 per Share.

During the six months ended 30 June 2020, i) 12,237,000 Granted Options were outstanding under the Share Option Scheme; ii) 696,000 Granted Options were exercised; iii) 3,130,000 Granted Options were lapsed; and iv) no Granted Options were cancelled.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST IN COMPETING INTERESTS OR CONFLICT OF INTEREST

For the six months ended 30 June 2020, the Directors are not aware of any business or interest of the Directors, the substantial shareholders of the Company and their respective associates (as defined in the Listing Rules) that competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interests which any such person has or may have with the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with the provisions set out in Appendix 10 of the Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions adopted by the Company during the period from the Listing Date to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE GOVERNANCE

The Directors are committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Shareholders. To accomplish this, the Group will continue to comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and the associated Listing Rules (the “**CG Code**”).

The shares of the Company were successfully listed on GEM on 6 July 2017 and were transferred to the Main Board on 24 October 2019. To the best knowledge of the Board, the Company had complied with the code provisions in the CG Code during the period from the Listing Date to 30 June 2020.

AUDIT COMMITTEE

The Company established the Audit Committee on 19 June 2017 with written terms of reference in compliance with Rules 3.21 to 3.24 of the Listing Rules and paragraph C.3 of the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and removal of the external auditors; review the financial statements and provide material advice in respect of financial reporting; and oversee the internal control and risk management procedures of the Company. The Audit Committee currently consists of three members, namely Mr. Hung Ka Hai Clement, Mr. Tsoon Wai Mun, Benjamin, and Mr. Loo Yau Soon. The Chairman of the Audit Committee is Mr. Hung Ka Hai Clement.

The Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2020 and the interim report have been reviewed by the Audit Committee. The Board is of the opinion that such financial information has been prepared in compliance with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

The Company’s independent auditor, Deloitte Touche Tohmatsu, has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

EVENT AFTER THE REPORTING PERIOD

On 3 July 2020, SY Factoring Limited (盛業商業保理有限公司), an indirect wholly-owned subsidiary of the Company, entered into the second supplemental guarantee agreement with Wuxi Communications, Wuxi Tonghui and Wuxi Guojin to amend certain terms of the previous guarantee agreements. Please refer to the announcement of the Company dated 3 July 2020 for details.

On 15 July 2020, the Company granted 17,400,000 share options to all directors and eligible employees of the Group to subscribe for the ordinary shares of the Company with an exercise price of HK\$6.68 per share and for a validity period of 5 years. Please refer to the announcement of the Company dated 15 July 2020 for details.

On 30 July 2020, the Company announced that the board lot size of the ordinary shares in the Company (the “Shares”) for trading on the Stock Exchange will be changed from 2,000 Shares to 500 Shares with effect from 9:00 a.m. on Friday, 21 August 2020. Please refer to the announcement of the Company dated 30 July 2020 for details.

By order of the Board
Sheng Ye Capital Limited
Tung Chi Fung
Chairman

Hong Kong, 20 August 2020

As at the date of this report, the Board comprises two Executive Directors: Mr. Tung Chi Fung and Mr. Chen Jen-Tse; and four Independent Non-executive Directors: Mr. Hung Ka Hai, Clement, Mr. Loo Yau Soon, Mr. Tsoon Wai Mun, Benjamin and Mr. Fong Heng Boo.

The English transliteration of the Chinese name(s) in this report, where indicated with “”, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

Unless otherwise stated, translation of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.09 for information purpose only. Such translation should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.

If there is any inconsistency in this report between the Chinese and English versions, the English version shall prevail.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF SHENG YE CAPITAL LIMITED

盛業資本有限公司

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Sheng Ye Capital Limited (the “Company”) and its subsidiaries set out on pages 25 to 76, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

20 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	3		
Interest income from factoring service		226,130	195,085
Income from other services		22,245	6,523
Total revenue		248,375	201,608
Gain on sales of factoring assets	4	75,105	35,928
Income from factoring and other services		323,480	237,536
Other income	5(a)	12,726	35,616
Other gains and losses	5(b)	41,889	106
Impairment losses under expected credit loss ("ECL") model, net of reversal	17	(16,806)	(12,023)
Staff costs	9	(44,562)	(28,199)
Other operating expenses		(43,392)	(31,364)
Donation		(245)	–
Share of profit of a joint venture		–	1,537
Share of profit of associates		4,732	2,167
Finance costs	6	(64,317)	(45,226)
Profit before taxation		213,505	160,150
Taxation	7	(30,846)	(35,255)
Profit for the period	9	182,659	124,895

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Other comprehensive income ("OCI"):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gain, net of ECL, after reclassification of derecognition on:			
– factoring assets at fair value through OCI ("FVTOCI")		4,258	1,471
Income tax relating to items that may be reclassified subsequently		(1,979)	(369)
Share of OCI of a joint venture, net of related income tax		–	32
Share of other comprehensive expense of associates, net of related income tax		(930)	(526)
OCI for the period, net of income tax		1,349	608
Total comprehensive income for the period		184,008	125,503
Profit for the period attributable to:			
– Owners of the Company		179,210	118,756
– Non-controlling interests		3,449	6,139
		182,659	124,895
Total comprehensive income for the period attributable to:			
– Owners of the Company		180,920	119,443
– Non-controlling interests		3,088	6,060
		184,008	125,503
Earnings per share	11		
– Basic (RMB cents)		20	14
– Diluted (RMB cents)		20	13

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	Notes	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Non-current assets			
Property and equipment	12	5,961	5,840
Intangible assets	12	19,504	19,960
Right-of-use assets	12	24,296	22,147
Investments in associates	13	140,748	67,580
Prepayments for non-current assets		1,269	985
Deferred tax assets	14	12,783	11,319
Refundable rental deposits		3,182	2,788
		207,743	130,619
Current assets			
Factoring assets at FVTOCI	15	3,947,696	3,837,348
Other financial assets at fair value through profit or loss ("FVTPL")	16	48,268	4,497
Derivative financial instruments	18	1,435	751
Loan receivable		3,812	9,066
Amounts due from a related party	28	241	–
Receivables from guarantee customers	19(a)	13,845	7,700
Trade receivables	19(b)	3,717	403
Other receivables, prepayments and others	19(c)	31,512	16,113
Pledged structured deposit		9,134	9,000
Pledged bank deposits		175,552	86,350
Bank balances and cash		211,448	377,327
		4,446,660	4,348,555

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	Notes	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Current liabilities			
Loans from an associate	28	117,405	–
Dividend payable		288	–
Other payables and accrued charges	20	86,424	73,740
Derivative financial instruments	18	585	2,359
Contract liabilities		1,311	672
Income tax payable		33,653	29,682
Liabilities arising from guarantee contracts	21	30,073	12,050
Borrowings	22(a)	1,748,456	1,867,299
Bank overdraft	22(b)	16,505	17,864
Lease liabilities		9,887	6,613
		2,044,587	2,010,279
Net current assets			
		2,402,073	2,338,276
Non-current liabilities			
Lease liabilities		14,991	15,448
Deferred tax liabilities	14	52,498	35,387
		67,489	50,835
Net assets			
		2,542,327	2,418,060
Capital and reserves			
Share capital	23	7,642	7,636
Reserves		2,422,520	2,281,363
Equity attributable to owners of the Company		2,430,162	2,288,999
Non-controlling interests		112,165	129,061
Total equity		2,542,327	2,418,060

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Attributable to owners of the Company							Total RMB'000	Non- controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	FVTOCI reserves RMB'000 (note i)	Share-based payments reserves RMB'000	Statutory reserves RMB'000 (note ii)	Retained profits RMB'000			
At 1 January 2020 (unaudited)	7,636	1,592,105	1,547	2,125	17,659	80,002	587,925	2,288,999	129,061	2,418,060
Profit for the period	-	-	-	-	-	-	179,210	179,210	3,449	182,659
Other comprehensive income (expense) for the period	-	-	-	1,710	-	-	-	1,710	(361)	1,349
Total comprehensive income for the period	-	-	-	1,710	-	-	179,210	180,920	3,088	184,008
Disposal of a subsidiary (note 8)	-	-	-	-	-	-	-	-	(19,984)	(19,984)
Recognition of equity-settled share-based payments	-	-	-	-	251	-	-	251	-	251
Dividends recognised as distribution (note 10)	-	(42,652)	-	-	-	-	-	(42,652)	-	(42,652)
Exercise of share options	6	3,419	-	-	(781)	-	-	2,644	-	2,644
At 30 June 2020 (unaudited)	7,642	1,552,872	1,547	3,835	17,129	80,002	767,135	2,430,162	112,165	2,542,327
At 1 January 2019 (audited)	7,623	1,615,787	1,547	(1,680)	9,320	44,437	343,147	2,020,181	95,881	2,116,062
Profit for the period	-	-	-	-	-	-	118,756	118,756	6,139	124,895
Other comprehensive income (expense) for the period	-	-	-	687	-	-	-	687	(79)	608
Total comprehensive income for the period	-	-	-	687	-	-	118,756	119,443	6,060	125,503
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	17,150	17,150
Recognition of equity-settled share-based payments	-	-	-	-	5,801	-	-	5,801	-	5,801
Dividends recognised as distribution (note 10)	-	(30,905)	-	-	-	-	-	(30,905)	-	(30,905)
Exercise of share options	-	195	-	-	(44)	-	-	151	-	151
At 30 June 2019 (unaudited)	7,623	1,585,077	1,547	(993)	15,077	44,437	461,903	2,114,671	119,091	2,233,762

Notes:

- (i) FVTOCI reserves attributable to owners of the Company represent (i) net effect of fair value changes on FVTOCI after tax; (ii) share of FVTOCI reserves of a joint venture and associates.
- (ii) Pursuant to the articles of association of the subsidiaries established in the People's Republic of China ("PRC"), they are required to appropriate 10% of their profit after taxation in accordance with the relevant accounting rules and financial regulations of the PRC before any distribution of dividends to owners each year to the statutory reserves until the balance reaches 50% of their registered capital.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	143,944	(679,725)
INVESTING ACTIVITIES		
Proceeds on disposal of interest in an associate	5,603	1,000
Proceeds from disposal of other financial assets at FVTPL	4,811	–
Dividend received from an associate	4,383	–
Withdrawal of pledged bank deposits	2,774	–
Refundable rental deposits received	2,295	–
Bank interest income received	1,368	1,401
Repayment from a loan receivable	1,325	–
Interest received from a loan receivable	410	719
Proceeds from disposal of equipment	1	–
Interest received from loans to associates	–	64
Repayments from loans to associates	–	7,350
Loans to associates	–	(7,350)
Payments for right-of-use assets	–	(285)
Payment for settlement of derivative financial instruments	(115)	–
Advances to related parties	(241)	(1,295)
Payments for refundable rental deposits	(614)	(1,196)
Purchase of other financial assets at FVTPL	(1,100)	(4,610)
Purchase of property and equipment	(1,264)	(2,332)
Payment for development costs and purchase of other intangible assets	(2,240)	(6,064)
Security deposits paid for derivative financial instruments	(8,160)	–
Net cash outflow on disposal of a subsidiary (note 8)	(19,984)	–
Investment in an associate	(80,000)	–
Placement of pledged bank deposits	(91,976)	(43,098)
NET CASH USED IN INVESTING ACTIVITIES	(182,724)	(55,696)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
FINANCING ACTIVITIES		
New borrowings raised	765,741	660,679
Loans raised from related parties	214,922	233,824
Exercise of equity-settled share options	2,644	151
Capital contribution from non-controlling shareholders of the subsidiaries	–	17,150
Interest paid for lease liabilities	(708)	(315)
Interest paid for loans from related parties	(3,132)	(894)
Repayment of lease liabilities	(3,961)	(3,525)
Security deposits paid for borrowings	(8,427)	–
Dividends paid	(42,364)	(30,905)
Interest paid for borrowings and bank overdraft	(50,133)	(31,191)
Repayment of loans from related parties	(98,575)	(75,381)
Repayment of borrowings	(893,870)	(108,665)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(117,863)	660,928
NET DECREASE IN CASH AND CASH EQUIVALENTS	(156,643)	(74,493)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	359,463	226,069
Effect of foreign exchange rate changes	(7,877)	(208)
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by	194,943	151,368
Bank balances and cash	211,448	168,961
Bank overdraft	(16,505)	(17,593)
	194,943	151,368

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Sheng Ye Capital Limited (the “Company”) completed transfer of listing of its shares from GEM to the Main Board of the Stock Exchange with effective from 24 October 2019.

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Company and its subsidiaries (the “Group”). As such, the financial positions and performance of the Group were affected in different aspects, including increase in ECL allowance on certain financial assets and other items and rent concessions from a lessor as disclosed in notes 17 and 12, respectively.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as appropriate.

Other than additional accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and method of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 “Covid-19-Related Rent Concessions”.

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.1 *Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

2.2 *Impacts and changes in accounting policies of early application on Amendment to HKFRS 16 “Covid-19-Related Rent Concessions”*

2.2.1 *Key changes in accounting policies*

Leases

Covid-19-related rent concessions

Rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 “Leases” if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

2.2.2 *Transition and summary of effects*

The Group has early applied the amendment in the current interim period to all rent concessions in the period (all of which meet the conditions in the amendment). The application has no impact to the opening retained profits at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of RMB224,000 in the profit or loss for the current interim period. Details of the rent concessions are disclosed in note 12.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

3. REVENUE AND SEGMENT INFORMATION

Revenue for the reporting period represents income received and receivable mainly from the provision of factoring and relevant services in the PRC.

The chief operating decision maker ("CODM"), being the executive directors of the Company, have determined that no segment information is presented other than entity wide disclosures throughout the reporting period, as the Group is principally engaged in providing factoring and relevant services mainly in the PRC, and the CODM, reviews the condensed consolidated financial position and results of the Group as a whole for the purposes of allocating resources and assessing performance of the Group.

The Company is an investment holding company and the principal place of the Group's operation is mainly in the PRC. Most of the Group's revenue and major non-current assets are principally derived from or located in the PRC.

(i) An analysis of the Group's revenue for the reporting period is as follows:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest income from factoring service	226,130	195,085
Income from other services:		
– Information technology service	12,992	991
– Guarantee service	5,500	3,489
– Consulting service	–	504
– Other services (note)	3,753	1,539
	22,245	6,523
	248,375	201,608

Note: Other services primarily include fee income from providing accounts receivable management services without financing, including review and verification of documentation relating to the accounts receivable and collection of the accounts receivable on behalf of customers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

3. REVENUE AND SEGMENT INFORMATION (continued)

(ii) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Timing of revenue recognition		
A point in time	8,850	504
Over time	7,895	2,530
Total	16,745	3,034

4. SALES OF FACTORING ASSETS

For the six months ended 30 June 2020 and 2019, the Group sold part of factoring assets to certain financial institutions mainly in the PRC. Sales of factoring assets gave rise to full derecognition of the factoring assets pursuant to the terms of sale agreements signed between the Group and relevant financial institutions.

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Gain on sales of factoring assets	75,105	35,928

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

5. OTHER INCOME/OTHER GAINS AND LOSSES

(a) Other income

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Government subsidies (note)	10,421	33,395
Bank interest income	1,368	1,401
Interest income from a loan receivable	923	745
Interest income from loans to associates	–	64
Others	14	11
	12,726	35,616

Note: The government subsidies were mainly received unconditionally by the Company's subsidiaries in the PRC from local government in relation to the incentive policy for investment in factoring and other financial business based on certain taxes paid or payable by the Company's PRC subsidiaries in Dongjiang Port Zone of Tianjin City.

During the current period, the Company's PRC subsidiaries had submitted the application for such kind of subsidies amounting to RMB17.3 million. As at 30 June 2020, the Group had received the government subsidies amounting to RMB9.3 million.

(b) Other gains and losses

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Gain from changes in fair value of other financial assets at FVTPL	47,482	90
Net gain arising from changes in fair value of derivative financial instruments	2,343	–
Gain from termination of a lease contract	26	–
Loss on disposal of equipment	(2)	(2)
(Loss) gain on disposal of investment in an associate (note 13)	(48)	230
Exchange loss, net	(7,743)	(208)
Others	(169)	(4)
	41,889	106

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

6. FINANCE COSTS

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on borrowings and bank overdraft (note)	59,419	41,146
Interest on loans from related parties (note 28)	4,190	3,765
Interest on lease liabilities (note)	708	315
	64,317	45,226

Note: Details of the interest on borrowings and lease liabilities in relation to related parties are set out in note 28.

7. TAXATION

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
The charge comprises:		
Current tax		
– PRC Enterprise Income Tax (“EIT”)	14,795	21,127
– Withholding tax levied on interest income of Hong Kong subsidiaries	2,383	2,577
– Withholding tax levied on dividend declared of a PRC subsidiary	–	1,625
	17,178	25,329
Deferred tax (note 14)	13,668	9,926
	30,846	35,255

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group's operation in Hong Kong had no assessable profit during both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

7. TAXATION (continued)

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. Certain PRC subsidiaries enjoy preferential tax rate according to approval from local tax bureau, including (i) a PRC subsidiary which enjoys preferential tax rate of 15% since 2016 and applies a further preferential tax rate of 12.5% for the year 2020; (ii) a PRC subsidiary, located in Khorgos city in the PRC, was exempted from EIT in the first 5 years since set up in year 2018, according to "關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知" (Caishui [2011] 112) issued by the State Administration of Taxation and the Ministry of Finance of the PRC.

Withholding tax has been provided for the current interim period in the condensed consolidated financial statements, and details are set out in note 14.

8. DISPOSAL OF A SUBSIDIARY

In April 2020, the Group de-registered its investment in Sheng Nuo Factoring Limited ("SNF"), a subsidiary of the Company. There were no profit or loss and cash flows of SNF recognised on the condensed consolidated financial statements for the current period.

Consideration received:

	RMB'000 (Unaudited)
Cash received	29,976

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

8. DISPOSAL OF A SUBSIDIARY (continued)

The net assets of SNF at the date of disposal were as follows:

	15 April 2020 RMB'000 (Unaudited)
Bank balances and cash	49,960
Net assets disposed of	49,960
Gain on disposal of a subsidiary:	
Cash consideration received	29,976
Net assets disposed of	(49,960)
Non-controlling interests	19,984
Gain on disposal of SNF	–
Net cash outflow arising on disposal:	
Cash consideration	29,976
Less: bank balances and cash disposed of	(49,960)
	(19,984)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

9. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Directors' emoluments	2,380	2,730
Other staff costs		
– Salaries, allowances and other staff benefits, including share option expenses	52,382	31,958
– Staff's retirement benefit scheme contributions	519	2,136
Total staff costs	55,281	36,824
Less: amount capitalised in development costs	(1,750)	(5,386)
Less: staff costs recognised as research and development costs in other operating expenses	(8,969)	(3,239)
Staff costs recognised in profit or loss	44,562	28,199
Research and development costs recognised as an expense (included in other operating expenses)	9,138	3,340
Total depreciation of property and equipment	1,001	805
Less: amount capitalised in development costs	(32)	(101)
Depreciation of property and equipment recognised in profit or loss	969	704
Depreciation of right-of-use assets	4,827	3,634
Amortisation of intangible assets	2,583	1,691
Covid-19-related rent concessions (note 12)	(224)	–

10. DIVIDENDS

During the current interim period, a final dividend of HK5.3 cents per share in respect of the year ended 31 December 2019 (30 June 2019: HK4 cents per share in respect of the year ended 31 December 2018) was declared to the owners of the Company.

The aggregate amount of the final dividend declared amounted to Hong Kong Dollars ("HK\$") 46,694,000 (equivalent to RMB42,652,000) (six months ended 30 June 2019: HK\$35,154,000 (equivalent to RMB30,905,000)). The aggregate amount of the final dividend paid in the interim period amounted to HK\$46,378,000 (equivalent to RMB42,364,000) (six months ended 30 June 2019: HK\$35,154,000 (equivalent to RMB30,905,000)).

The directors of the Company do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	179,210	118,756

	Six months ended 30 June	
	2020 '000 (Unaudited)	2019 '000 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	880,799	878,856
Effect of dilutive potential ordinary shares:		
Share options	2,613	4,001
Weighted average number of ordinary shares for the purpose of diluted earnings per share	883,412	882,857

12. MOVEMENTS IN PROPERTY AND EQUIPMENT/INTANGIBLE ASSETS/ RIGHT-OF-USE ASSETS

During the current interim period, the Group acquired property and equipment of RMB1,125,000 (six months ended 30 June 2019: RMB2,698,000).

During the current interim period, the Group incurred costs directly associated with intangible assets of RMB2,127,000 (six months ended 30 June 2019: RMB6,136,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

12. MOVEMENTS IN PROPERTY AND EQUIPMENT/INTANGIBLE ASSETS/ RIGHT-OF-USE ASSETS (continued)

During the current interim period, the Group entered into several new office lease agreements with lease term ranged from 1.5 to 3 years and several agreements with extend terms ranged from 2 to 3 years. On lease commencement, the Group recognised right-of-use assets of RMB7,744,000 (six months ended 30 June 2019: RMB4,088,000) and lease liabilities of RMB7,744,000 (six months ended 30 June 2019: RMB3,803,000). Besides, the Group and a lessor agreed to early terminate a lease contract, at the effective date of the termination, the Group derecognised the right-of-use assets and lease liabilities and recognised a gain from lease termination as disclosed in note 5(b).

During the current interim period, a lessor provided office premises rent concession to the Group through rent reductions of 100% from February 2020 to April 2020 and 50% from May 2020 to August 2020.

The office premises rent concession occurred as a direct consequence of Covid-19 pandemic and met of all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. During the current interim period, the effects on changes in lease payments due to forgiveness or waiver by a lessor for the relevant lease of RMB224,000 was recognised as negative variable lease payments.

13. INVESTMENTS IN ASSOCIATES

Details of the Group's investments in associates are as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Cost of investments in associates, unlisted	130,000	56,000
Share of post-acquisition profit, net of dividend received	9,420	9,322
Share of post-acquisition OCI	1,328	2,258
	140,748	67,580

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FOR THE SIX MONTHS ENDED 30 JUNE 2020

13. INVESTMENTS IN ASSOCIATES (continued)

Details of the Group's associates at the end of the reporting period are as follow:

Name of entity	Place of incorporation/ establishment	Particulars of authorised and paid up capital	Proportion of ownership interest/voting rights held by the Group as at		Principal activity
			30.6.2020	31.12.2019	
Wuxi Guojin Factoring Limited [#] (無錫國金商業保理有限公司) ("WXGJ")	PRC	RMB300,000,000 RMB300,000,000	40%	40%	Provision of factoring service
Hong Ji Factoring (Shenzhen) Limited [#] (弘基商業保理(深圳)有限公司) ("HJ") (note i)	PRC	RMB100,000,000 RMB100,000,000	10%	10%	Provision of factoring service
Shenzhen Sheng Ye Non-Financing Guarantee Limited [#] (深圳市盛業非融資性擔保有限責任公司)("SYNFGJ")	PRC	RMB30,000,000 RMB30,000,000	N/A (note ii)	20%	Provision of non-financing guarantee service
Shoujin Digital Information Technology (Beijing) Co., Ltd [#] (首金數科信息科技(北京)有限公司)	PRC	RMB8,000,000 -	40%	N/A	Provision of IT service

[#] English translated name is for identification purpose only.

Notes:

- (i) The Group is able to exercise significant influence over the entity because it has the power to appoint one out of three directors of the entity under the articles of association of the entity.
- (ii) In April 2020, the Group disposed all the investment in SYNFGJ, an associate of the Group, to an independent third party at cash consideration of RMB6,203,000, which resulted in the Group recognising a loss of RMB48,000 in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

14. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Deferred tax assets	12,783	11,319
Deferred tax liabilities	(52,498)	(35,387)
	(39,715)	(24,068)

The following are the major deferred tax assets (liabilities) recognised and movements thereon during both periods:

	Undistributed earnings of PRC subsidiaries RMB'000	Deferred income RMB'000	ECL provision RMB'000 (note)	Fair value adjustments RMB'000	Total RMB'000
At 1 January 2019 (audited)	(18,840)	11,359	8,653	671	1,843
Charge to profit or loss (note 7)	(5,223)	(4,222)	(481)	–	(9,926)
Charge to OCI	–	–	–	(369)	(369)
At 30 June 2019 (unaudited)	(24,063)	7,137	8,172	302	(8,452)
(Charge) credit to profit or loss	(11,324)	(3,202)	(855)	380	(15,001)
Charge to OCI	–	–	–	(615)	(615)
At 31 December 2019 (audited)	(35,387)	3,935	7,317	67	(24,068)
(Charge) credit to profit or loss (note 7)	(11,497)	2,383	1,664	(6,218)	(13,668)
Charge to OCI	–	–	–	(1,979)	(1,979)
At 30 June 2020 (unaudited)	(46,884)	6,318	8,981	(8,130)	(39,715)

Note: At 30 June 2020, a deferred tax asset of RMB8,981,000 (31 December 2019: RMB7,317,000) was recognised based on the deductible temporary differences associated with ECL provision. As a PRC subsidiary of the Group was exempted from EIT and the unpredictability of future profit stream of a Hong Kong subsidiary, the deferred tax asset of the ECL provision of RMB32,453,000 (31 December 2019: RMB22,303,000) out of RMB68,377,000 (31 December 2019: RMB51,571,000) has not been recognised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

14. DEFERRED TAXATION (continued)

Pursuant to the EIT Law and its detailed implementation rules, dividend distributed out of the profit generated thereafter, shall be subject to EIT at 10% and withheld by the PRC entities. By the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong, a Hong Kong resident company should be entitled to preferential tax rate of 5% when receiving dividend from its PRC subsidiaries. The Hong Kong subsidiaries of the Group enjoyed the preferential tax rate aforementioned. Accordingly, deferred tax liability has been provided for in the condensed consolidated financial statements in respect of the expected dividend stream from the PRC subsidiaries with the applicable tax rate of 5%.

At 30 June 2020, the Hong Kong subsidiaries had cumulative unutilised tax losses of RMB26,123,000 (31 December 2019: RMB15,470,000). No deferred tax asset has been recognised in relation to such cumulative tax losses as it is not probable that taxable profit will be available against which the cumulative tax losses can be utilised.

At 30 June 2020, the PRC subsidiaries had cumulative unutilised tax losses of RMB14,000 (31 December 2019: RMB38,000). No deferred tax asset has been recognised due to the unpredictability of future profit stream. Some of the unused tax losses can be carried forward up to five years from the years in which the loss was originated to offset future taxable profits.

15. FACTORING ASSETS AT FVTOCI

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Factoring assets at FVTOCI	3,947,696	3,837,348
Analysed for reporting purposes as:		
Current assets	3,947,696	3,837,348

As at 30 June 2020, the effective interest rates of the factoring assets at FVTOCI range mainly from 6.00% to 17.5% (31 December 2019: 5.90% to 18.00%) per annum.

As at 30 June 2020, certain commercial acceptance bills have been received from customers with fair value amounting of RMB424,293,000 (31 December 2019: RMB412,030,000) as pledged bills to the factoring assets. The bills can also be applied and used to settle any outstanding receivables of factoring assets for the corresponding contract if default occurs, otherwise the Company needs to return the bills if the outstanding factoring assets are settled. Until such time as default occurs and they are used to settle the factoring assets, the commercial acceptance bills are not recognised as an asset in the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

15. FACTORING ASSETS AT FVTOCI (continued)

The following is a credit quality analysis of factoring assets at FVTOCI.

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Not past due	3,947,696	3,837,348

Note: In the event that instalments repayment of a factoring asset at FVTOCI is past due, the entire outstanding balance of the factoring assets is classified as past due.

16. OTHER FINANCIAL ASSETS AT FVTPL

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Equity tranche	44,916	–
Trust fund	3,352	4,497
	48,268	4,497

Note: The financial assets were recognised as FVTPL due to the contractual cash flows did not pass through solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

17. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Impairment losses recognised on:		
– Financial guarantee contracts	7,998	2,026
– Loan receivable	4,442	–
– Factoring assets at FVTOCI	4,188	9,872
– Receivables from guarantee contracts	178	–
– Security deposits for guarantee contracts	–	125
	16,806	12,023

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

As at 30 June 2020

Internal credit rating	12-month or lifetime ECL	Average loss rate	Gross carrying amount/ exposure RMB'000 (Unaudited)	Impairment loss allowance RMB'000 (Unaudited)
Factoring assets at FVTOCI				
Low risk	12-month ECL	1.22%	3,978,773	48,383
Watch list	Lifetime ECL (not credit-impaired)	16.10%	13,284	2,139
Loss	Lifetime ECL (credit-impaired)	N/A	–	–
			3,992,057	50,522

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17. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL (continued)

As at 30 June 2020

Internal credit rating	12-month or lifetime ECL	Average loss rate	Gross carrying amount/ exposure RMB'000 (Unaudited)	Impairment loss allowance RMB'000 (Unaudited)
Financial assets at amortised cost				
<i>Pledged bank deposits</i>				
AAA/BBB+ (note i)	12-month ECL	N/A	175,552	–
<i>Pledged structured deposit</i>				
BBB+ (note i)	12-month ECL	N/A	9,134	–
<i>Bank balances and cash</i>				
AAA/BBB+ (note i)	12-month ECL	N/A	211,448	–
<i>Loan receivable</i>				
Loss	Lifetime ECL (credit-impaired)	69.74%	12,598	8,786
<i>Receivables from guarantee customers</i>				
Low risk	12-month ECL	1.49%	13,788	206
Watch list	Lifetime ECL (not credit-impaired)	21.73%	336	73
<i>Refundable rental deposits</i>				
Low risk (note i)	12-month ECL	N/A	3,182	–
<i>Trade receivables</i>				
Low risk (note i)	Lifetime ECL (not credit-impaired)	N/A	3,717	–
<i>Other receivables</i>				
N/A (note i) (note ii)	12-month ECL	N/A	28,527	–
			458,282	9,065

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17. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL (continued)

As at 30 June 2020

Internal credit rating	12-month or lifetime ECL	Average loss rate	Gross carrying amount/ exposure RMB'000 (Unaudited)	Impairment loss allowance RMB'000 (Unaudited)
Other items				
<i>Financial guarantee contracts (note iii)</i>				
<i>- loan guarantee contracts in relation to third parties</i>				
Low risk	12-month ECL	1.48%	899,752	13,332
Watch list	Lifetime ECL (not credit-impaired)	22.43%	19,209	4,308
<i>- loan guarantee contracts in relation to an associate</i>				
Low risk	12-month ECL	0.30%	340,800	1,022
			1,259,761	18,662

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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17. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL (continued)

As at 31 December 2019

Internal credit rating	12-month or lifetime ECL	Average loss rate	Gross carrying amount/exposure RMB'000 (Audited)	Impairment loss allowance RMB'000 (Audited)
Factoring assets at FVTOCI				
Low risk	12-month ECL	1.19%	3,877,938	46,080
Watch list	Lifetime ECL (not credit-impaired)	6.61%	3,841	254
Loss	Lifetime ECL (credit-impaired)	N/A	–	–
			3,881,779	46,334
Financial assets at amortised cost				
<i>Pledged bank deposits</i>				
AAA/BBB+ (note i)	12-month ECL	N/A	86,350	–
<i>Pledged structured deposit</i>				
BBB+ (note i)	12-month ECL	N/A	9,000	–
<i>Bank balances and cash</i>				
AAA/BBB+ (note i)	12-month ECL	N/A	377,327	–
<i>Loan receivable</i>				
Watch list	Lifetime ECL (not credit-impaired)	32.39%	13,410	4,344
<i>Receivables from guarantee customers</i>				
Low risk	12-month ECL	1.29%	7,801	101
<i>Refundable rental deposits</i>				
Low risk (note i)	12-month ECL	N/A	2,788	–
<i>Trade receivables</i>				
Low risk (note i)	Lifetime ECL (not credit-impaired)	N/A	403	–
<i>Other receivables</i>				
N/A (note i) (note ii)	12-month ECL	N/A	14,189	–
			511,268	4,445

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

17. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL (continued)

As at 31 December 2019

Internal credit rating	12-month or lifetime ECL	Average loss rate	Gross carrying amount/exposure RMB'000 (Audited)	Impairment loss allowance RMB'000 (Audited)
Other items				
<i>Financial guarantee contracts (note iii)</i>				
<i>- loan guarantee contracts in relation to third parties</i>				
Low risk	12-month ECL	1.37%	456,788	6,276
<i>- loan guarantee contracts in relation to an associate</i>				
Low risk	12-month ECL	0.40%	270,000	1,069
<i>- guarantee contracts to suppliers</i>				
Low risk	12-month ECL	1.40%	46,608	653
			773,396	7,998

Notes:

- (i) The directors of the Company reviewed and assessed the impairment under ECL model, considering that these financial assets were determined to have low credit risk as these financial assets have a low risk of default and the debtors have a strong capacity to meet their contractual cash flow obligations in the near term, and no loss allowance was recognised as the amount of ECL was immaterial.
- (ii) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 30 June 2020 and 31 December 2019, all of other receivables were not past due.
- (iii) For financial guarantee contract, the amount represents the maximum amount the Group has guaranteed under the contract.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

17. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL (continued)

The movements in the allowance for impairment in respect of factoring assets at FVTOCI during the current interim period were as follows:

	12-month ECL RMB'000	Lifetime ECL not credit- impaired RMB'000	Total RMB'000
As at 1 January 2020 (unaudited)	46,080	254	46,334
Changes due to financial instruments recognised as at 1 January:			
– Transfer to lifetime ECL – not credit-impaired	(14)	14	–
– Impairment losses, net of reversal	(41,127)	(216)	(41,343)
New financial assets purchased, net of settlement	43,444	2,087	45,531
As at 30 June 2020 (unaudited)	48,383	2,139	50,522
As at 1 January 2019 (audited)	25,707	8,747	34,454
Changes due to financial instruments recognised as at 1 January:			
– Transfer to lifetime ECL – not credit-impaired	(154)	154	–
– Impairment losses, net of reversal	(18,242)	(5,204)	(23,446)
New financial assets purchased, net of settlement	31,628	1,690	33,318
As at 30 June 2019 (unaudited)	38,939	5,387	44,326

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

17. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL (continued)

The movements in the allowance for impairment in respect of financial guarantee contracts during the current interim period were as follows:

	12-month ECL RMB'000	Lifetime ECL not credit- impaired RMB'000	Total RMB'000
As at 1 January 2020 (unaudited)	7,998	–	7,998
Changes due to financial instruments recognised as at 1 January:			
– Transfer to lifetime ECL – not credit-impaired	(353)	353	–
– Impairment losses, net of reversal	(4,500)	1,326	(3,174)
New financial guarantee contracts entered, net of settlement	11,209	2,629	13,838
As at 30 June 2020 (unaudited)	14,354	4,308	18,662
As at 1 January 2019 (audited)	–	–	–
New financial guarantee contracts entered, net of settlement	3,990	–	3,990
As at 30 June 2019 (unaudited)	3,990	–	3,990

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

18. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2020		31 December 2019	
	Assets RMB'000 (Unaudited)	Liabilities RMB'000 (Unaudited)	Assets RMB'000 (Audited)	Liabilities RMB'000 (Audited)
Cross currency swap contracts	1,139	585	700	2,359
Foreign currency forward contracts	296	–	51	–
	1,435	585	751	2,359

Analysed for financial reporting purpose based on maturity dates:

	30 June 2020		31 December 2019	
	Assets RMB'000 (Unaudited)	Liabilities RMB'000 (Unaudited)	Assets RMB'000 (Audited)	Liabilities RMB'000 (Audited)
Current	1,435	585	751	2,359

The above derivatives are measured at fair values at the end of the reporting period and changes in fair value are recognised in the profit or loss. Their fair values are determined by Fairdex Valuation Advisory Limited, an independent valuer, based on appropriate valuation techniques as detailed in note 26.

At 30 June 2020, the security deposits of RMB11,710,000 (31 December 2019: RMB3,550,000) and bank deposits of RMB7,342,000 (31 December 2019: RMB6,904,000) were pledged as security for the derivative financial instruments. The balance of the security deposits and bank deposits can be applied and used to settle any outstanding payments for the corresponding contracts if default occurs.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cross currency swap contracts

The major terms of the outstanding Cross currency swap contracts at the end of the reporting period are as follows:

At 30 June 2020

Notional amounts	Commencement dates	Maturity dates	Contracted swap rates	Interest rates
HK\$50,000,000	16/08/2019	01/07/2020	HK\$:RMB 1:0.8975 HK\$ against RMB swap rates	From 5.13% per annum to 3 months Hong Kong Interbank Offered Rate ("HIBOR") plus 2.4%
United States Dollars ("US\$") 1,500,000	27/09/2019	31/08/2020	US\$:RMB 1:7.1281 US\$ against RMB swap rates	From 4.06% per annum to 3 months London Interbank Offered Rate ("LIBOR") plus 1.4%
US\$8,500,000	27/09/2019	31/08/2020	US\$:RMB 1:7.1043 US\$ against RMB swap rates	From 4.00% per annum to 3 months LIBOR plus 1.4%
US\$8,600,000	20/12/2019	26/11/2020	US\$:RMB 1:7.0150 US\$ against RMB swap rates	From 4.07% per annum to 3 months LIBOR plus 1.5%
US\$5,600,000	18/03/2020	27/11/2020	US\$:RMB 1:7.0200 US\$ against RMB swap rates	From 3.08% per annum to 3 months LIBOR plus 1.5%
US\$10,200,000	20/04/2020	23/03/2021	US\$:RMB 1:7.0800 US\$ against RMB swap rates	From 3.31% per annum to 3 months LIBOR plus 2.0%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Foreign currency forward contracts

The major terms of the outstanding foreign currency forward contracts at the end of the reporting period are as follow:

At 30 June 2020

Notional amount	Maturity date	Contracted exchange rate
Buy Euro1,400,000	03/09/2020	Euro:RMB 1:7.9500
Buy Euro4,600,000	03/09/2020	Euro:RMB 1:7.9301

The Group entered into cross currency swap contracts to manage its foreign currency risk exposures and interest risk exposures arising from certain of its variable-rate bank borrowings denominated in HK\$ and US\$.

The Group entered into foreign currency forward contracts to manage its foreign currency risk exposure arising from its variable-rate bank borrowing denominated in Euro.

19. RECEIVABLES FROM GUARANTEE CUSTOMERS/TRADE RECEIVABLES/ OTHER RECEIVABLES, PREPAYMENTS AND OTHERS

(a) Receivables from guarantee customers

For guarantee service which is recognised in accordance with HKFRS 9, the Group recognises receivables from guarantee customers equal to the guarantee fees less amounts that the Group received from the customer.

The following is an aged analysis of receivables from guarantee customers presented based on the date of payment.

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0-30 days	13,845	7,700

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19. RECEIVABLES FROM GUARANTEE CUSTOMERS/TRADE RECEIVABLES/ OTHER RECEIVABLES, PREPAYMENTS AND OTHERS (continued)

(b) Trade receivables

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contracts with customers of information technology and other services	3,717	403

The following is an aged analysis of trade receivables presented based on the date of rendering of services.

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0-30 days	3,717	403

(c) Other receivables, prepayments and others

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Security deposits for borrowings (note 22(a))	14,723	6,296
Security deposits for derivative financial instruments (note 18)	11,710	3,550
Tax recoverable	2,136	24
Prepayments	849	1,900
Refundable rental deposits	167	2,242
Other receivables	1,927	2,101
	31,512	16,113

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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20. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Other tax payables	38,325	27,197
Accrued charges	32,526	40,661
Settlement payables to factoring customers	15,389	4,994
Advance receipt from disposal of investment in an associate	–	600
Other payables	184	288
	86,424	73,740

21. LIABILITIES ARISING FROM GUARANTEE CONTRACTS

	30 June 2020			31 December 2019		
	Premium less accumulated amortisation RMB'000 (Unaudited)	ECL provision RMB'000 (Unaudited)	Carrying amount RMB'000 (Unaudited)	Premium less accumulated amortisation RMB'000 (Audited)	ECL provision RMB'000 (Audited)	Carrying amount RMB'000 (Audited)
Loan guarantee contracts in relation to:						
– third parties (note i)	14,869	17,640	23,657	8,299	6,276	8,914
– an associate (note ii)	6,414	1,022	6,416	2,070	1,069	2,247
Guarantee contracts to suppliers in relation to:						
– non-payment of payables (note iii)	–	–	–	889	653	889
	21,283	18,662	30,073	11,258	7,998	12,050

At the end of the reporting period, the directors of the Company has assessed the past due status of the debts under guarantee, the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate. Details of impairment assessment are set out in note 17.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

21. LIABILITIES ARISING FROM GUARANTEE CONTRACTS (continued)

The following is the maximum amount the Group has guaranteed under the contracts and details of liabilities arising from guarantee contracts.

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Loan guarantee contracts in relation to		
– third parties (note i)	918,961	456,788
– an associate (note ii)	340,800	270,000
Guarantee contracts to suppliers in relation to performance obligations (note iii)	–	46,608
	1,259,761	773,396

Notes:

- (i) As at 30 June 2020, the Group provided guarantee services for loan guarantee customers which are third parties of the maximum amount of RMB918,961,000 (31 December 2019: RMB456,788,000) and placed bank deposits of RMB41,000,000 (31 December 2019: RMB20,000,000) to lenders. The Group has to pay on behalf of loan guarantee customers to lenders when the customers defaulted in settlement of their outstanding liabilities with lenders when due, after deduction of the security deposits placed to lenders.

As at 30 June 2020, an amount of RMB17,640,000 (31 December 2019: RMB6,276,000) has been estimated as a loss allowance in accordance with HKFRS 9, an amount of RMB8,173,000 loss allowance was recognised in the profit or loss because the premium received less cumulative amount of certain contracts were lower than the amount of loss allowance.

- (ii) As at 30 June 2020, the Group provided guarantees to loans amounting to RMB852,000,000 (31 December 2019: RMB675,000,000), raised by an associate of the Group from the controlling shareholder, its related party of the associate and its lenders. The guaranteed amounts were approximately 40% of all sums payable by the associate.

For the loan guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was RMB340,800,000 (31 December 2019: RMB270,000,000). Fair value initially recognised in relation to the loan guarantees by the Group amounted to RMB7,722,000 (31 December 2019: RMB3,522,000).

As at 30 June 2020, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12-month ECL. An amount of RMB1,022,000 has been estimated as a loss allowance as at 30 June 2020 (31 December 2019: RMB1,069,000) in accordance with HKFRS 9, an amount of RMB175,000 loss allowance was reversed in the profit or loss during the interim period.

- (iii) The Group provided guarantee services to independent third parties, which are the suppliers of the Group's customers. The Group has to pay on behalf of the customers to their suppliers when the customers defaulted in settlement of the outstanding payables when due. The maximum amount that the Group has guaranteed under the contracts was RMB46,608,000 as at 31 December 2019. The guarantee services were completed during the six months ended 30 June 2020.

- (iv) Details of impairment assessment are set out in note 17.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

22. BORROWINGS/BANK OVERDRAFT

(a) Borrowings

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Bank borrowings	740,772	469,495
Entrusted loans	323,710	445,376
Bills discounted	14,686	31,107
Other loans	669,288	921,321
	1,748,456	1,867,299
Secured	903,870	560,633
Unsecured	844,586	1,306,666
	1,748,456	1,867,299
The carrying amounts of the above borrowings are repayable*:		
Within one year	1,556,903	1,475,574
The carrying amounts of the above borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	191,553	391,725
Amounts shown under current liabilities	1,748,456	1,867,299

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

22. BORROWINGS/BANK OVERDRAFT (continued)

(a) Borrowings (continued)

The exposure of the Group's variable-rate borrowings and fixed-rate borrowings are as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Fixed-rate borrowings	1,132,130	1,502,030
Variable-rate borrowings	616,326	365,269
	1,748,456	1,867,299

The Group's variable-rate borrowings carry interest at HIBOR, LIBOR or Europe Interbank Offered Rate ("EURIBOR"), and Loan Prime Rate ("LPR").

The ranges of effective interest rates on the Group's borrowings are as follows:

	30 June 2020 %	31 December 2019 %
Range of fixed-rate borrowings interest rates (per annum)	4.00~12.60	4.00~10.00
Range of variable-rate borrowings interest rates (per annum)	1.39~5.65	2.30~5.35

As at 30 June 2020, the Group's borrowings of RMB705,334,000 (31 December 2019: RMB447,668,000) were secured by charge over certain factoring assets of the Group with an aggregate carrying values of RMB658,848,000 (31 December 2019: RMB462,512,000), in respect of which the legal title and legal right to receive cash flows was also transferred to the lenders.

As at 30 June 2020, the carrying amount of bills discounted borrowings is RMB14,686,000 (31 December 2019: RMB31,107,000). The bills received from customers as pledged to factoring assets with par value of RMB14,759,000 (31 December 2019: RMB31,632,000) were discounted to the bank.

As at 30 June 2020, the Group's bank borrowings of RMB324,901,000 (31 December 2019: RMB362,453,000) were secured by charge over certain bank deposits of RMB127,210,000 (31 December 2019: RMB59,446,000) and security deposits of RMB14,723,000 (31 December 2019: RMB6,296,000), in respect of which the legal title and legal right to receive cash flows was also transferred to the banks.

As at 30 June 2020, the Group's borrowings of RMB581,924,000 (31 December 2019: RMB418,490,000) were guaranteed by the Company, a PRC subsidiary and/or a Hong Kong subsidiary.

Details of the transfer of financial assets are set out in note 27.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

22. BORROWINGS/BANK OVERDRAFT (continued)

(b) Bank overdraft

As at 30 June 2020, the bank overdraft amounted to HK\$18,070,000 (equivalent to RMB16,505,000) (31 December 2019: HK\$19,943,000 (equivalent to RMB17,864,000)), which is repayable on demand, carrying interest rate per annum at the rate of the benchmark rate offered by the HIBOR plus 2.25% per annum, guaranteed by the Company and a PRC subsidiary and pledged by structured deposit amounting to HK\$10,000,000 (equivalent to RMB9,134,000) (31 December 2019: HK\$10,000,000 (equivalent to RMB9,000,000)).

23. SHARE CAPITAL

Details of movements of share capital of the Company are as follows:

	Number of shares	Share capital HK\$
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2019, 1 January 2020 and 30 June 2020	5,000,000,000	50,000,000
	Number of shares	Share capital HK\$
Issued:		
At 1 January 2019	878,840,500	8,788,405
Exercise of share options	1,475,500	14,755
At 31 December 2019	880,316,000	8,803,160
Exercise of share options (note 25)	696,000	6,960
At 30 June 2020	881,012,000	8,810,120
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Shown in the condensed consolidated statement of financial position	7,642	7,636

All the shares issued during the period ranked pari passu in all respects with the then existing shares in issue.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

24. CAPITAL COMMITMENTS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Capital expenditure contracted for but not provided for in the condensed consolidated financial statements		
– investment in an associate	3,200	–
– intangible assets	546	572
– equipment	187	–
	3,933	572

25. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company's share option scheme (the "Scheme"), was adopted pursuant to resolutions passed on 11 September 2017 and 14 November 2018 ("Option Grant Date") for the primary purpose of providing incentives to directors and eligible employees, and will expire on 10 September 2022 and 13 November 2023 respectively. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including a director and certain independent non-executive directors of the Company and the management of an associate of the Company, to subscribe for shares in the Company.

At 30 June 2020, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 12,237,000 (31 December 2019: 16,063,000), representing 1.39% (31 December 2019: 1.82%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be offered for acceptance for a period of not less than 28 days, upon payment of HK\$1.00 by each of eligible employees determined by the board of directors of the Company. Options may be exercised at any time from 12 months from the date of grant of the share option to the 5 anniversary of the date of grant. The exercise price is determined by the directors of the Company, and shall be the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

25. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option scheme of the Company (continued)

Details of specific categories of options are as follows:

Equity-settled share option scheme on 11 September 2017:

	Date of grant	Vesting period	Exercise period	Exercise Price	Exercise dates
Tranche 1	11/9/2017	11/9/2017-10/9/2018	11/9/2018-10/9/2022	HK\$4.20	11/9/2018
Tranche 2	11/9/2017	11/9/2017-10/9/2019	11/9/2019-10/9/2022	HK\$4.20	11/9/2019
Tranche 3	11/9/2017	11/9/2017-10/9/2020	11/9/2020-10/9/2022	HK\$4.20	11/9/2020

Equity-settled share option scheme on 14 November 2018:

	Date of grant	Vesting period	Exercise period	Exercise Price	Exercise dates
Tranche 4	14/11/2018	14/11/2018-13/11/2019	14/11/2019-13/11/2023	HK\$6.90	14/11/2019
Tranche 5	14/11/2018	14/11/2018-13/11/2020	14/11/2020-13/11/2023	HK\$6.90	14/11/2020
Tranche 6	14/11/2018	14/11/2018-13/11/2021	14/11/2021-13/11/2023	HK\$6.90	14/11/2021

The following table discloses movements of the Company's share options held by the directors of the Company and employees of the Group during both periods:

Grantee	Exercise period	Outstanding	Granted	Forfeited	Exercised	Outstanding
		at 1 January 2020				during period
Directors	11/9/2018-10/9/2022	500,000	-	-	-	500,000
	11/9/2019-10/9/2022	500,000	-	-	-	500,000
	11/9/2020-10/9/2022	1,000,000	-	-	-	1,000,000
	14/11/2019-13/11/2023	400,000	-	-	-	400,000
	14/11/2020-13/11/2023	400,000	-	-	-	400,000
	14/11/2021-13/11/2023	800,000	-	-	-	800,000
		3,600,000	-	-	-	3,600,000
Exercisable at the end of the reporting period		1,400,000				1,400,000
Weighted average exercise price per share		5.40	-	-	-	5.40

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

25. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option scheme of the Company (continued)

Grantee	Exercise period	Outstanding at 1 January 2020	Granted during period	Forfeited during period	Exercised during period	Outstanding at 30 June 2020
Employees	11/9/2018-10/9/2022	1,061,000	–	–	(196,000)	865,000
	11/9/2019-10/9/2022	1,607,000	–	–	(500,000)	1,107,000
	11/9/2020-10/9/2022	3,770,000	–	(1,450,000)	–	2,320,000
	14/11/2019-13/11/2023	1,506,250	–	(420,000)	–	1,086,250
	14/11/2020-13/11/2023	1,506,250	–	(420,000)	–	1,086,250
	14/11/2021-13/11/2023	3,012,500	–	(840,000)	–	2,172,500
		12,463,000	–	(3,130,000)	(696,000)	8,637,000
Exercisable at the end of the reporting period		4,174,250				3,058,250
Weighted average exercise price per share		5.51	–	5.65	4.20	5.56

Grantee	Exercise period	Outstanding at 1 January 2019	Granted during period	Forfeited during period	Exercised during period	Outstanding at 30 June 2019
Directors	11/9/2018-10/9/2022	500,000	–	–	–	500,000
	11/9/2019-10/9/2022	500,000	–	–	–	500,000
	11/9/2020-10/9/2022	1,000,000	–	–	–	1,000,000
	14/11/2019-13/11/2023	400,000	–	–	–	400,000
	14/11/2020-13/11/2023	400,000	–	–	–	400,000
	14/11/2021-13/11/2023	800,000	–	–	–	800,000
		3,600,000	–	–	–	3,600,000
Exercisable at the end of the reporting period		500,000				500,000
Weighted average exercise price per share		5.40	–	–	–	5.40

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

25. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option scheme of the Company (continued)

Grantee	Exercise period	Outstanding	Granted	Forfeited	Exercised	Outstanding
		at 1 January				at 30 June
		2019	during period	during period	during period	2019
Employees	11/9/2018-10/9/2022	1,958,500	–	–	(41,500)	1,917,000
	11/9/2019-10/9/2022	2,315,000	–	(130,000)	–	2,185,000
	11/9/2020-10/9/2022	4,630,000	–	(260,000)	–	4,370,000
	14/11/2019-13/11/2023	1,842,500	–	(161,250)	–	1,681,250
	14/11/2020-13/11/2023	1,842,500	–	(161,250)	–	1,681,250
	14/11/2021-13/11/2023	3,685,000	–	(322,500)	–	3,362,500
		16,273,500	–	(1,035,000)	(41,500)	15,197,000
Exercisable at the end of the reporting period		1,958,500				1,917,000
Weighted average exercise price per share		5.42	–	5.88	4.20	5.39

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

Equity-settled share option scheme on 11 September 2017:

	Tranche 1	Tranche 2	Tranche 3
Grant date	11 September 2017	11 September 2017	11 September 2017
Fair value at grant date	HK\$1.29	HK\$1.42	HK\$1.52
Share price	HK\$4.09	HK\$4.09	HK\$4.09
Exercise price	HK\$4.20	HK\$4.20	HK\$4.20
Expected volatility	45.00%	45.00%	45.00%
Expected life	5 years	5 years	5 years
Exercise period	11/9/2018-10/9/2022	11/9/2019-10/9/2022	11/9/2020-10/9/2022
Risk-free rate	1.00%	1.00%	1.00%
Expected dividend yield	–	–	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

25. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option scheme of the Company (continued)

Equity-settled share option scheme on 14 November 2018:

	Tranche 4	Tranche 5	Tranche 6
Grant date	14 November 2018	14 November 2018	14 November 2018
Fair value at grant date	HK\$2.13	HK\$2.31	HK\$2.44
Share price	HK\$6.87	HK\$6.87	HK\$6.87
Exercise price	HK\$6.90	HK\$6.90	HK\$6.90
Expected volatility	43.00%	43.00%	43.00%
Expected life	5 years	5 years	5 years
Exercise period	14/11/2019-13/11/2023	14/11/2020-13/11/2023	14/11/2021-13/11/2023
Risk-free rate	2.25%	2.25%	2.25%
Expected dividend yield	1%	1%	1%

Expected volatility was adopted as of the valuation date with reference to the annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price of a set of comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of RMB251,000 for the period ended 30 June 2020 (30 June 2019: RMB5,801,000) in relation to share options granted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

26. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable:

Financial assets/liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30.6.2020 RMB'000	31.12.2019 RMB'000			
Cross currency swaps contracts	Assets - 1,139 Liabilities - 585	Assets - 700 Liabilities - 2,359	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, as well as forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A
Foreign currency forward contracts	Assets - 296	Assets - 51	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A
Factoring assets at FVTOCI	Assets - 3,947,696	Assets - 3,837,348	Level 3	Discounted cash flow. Risk-adjusted discount rate and cash flow are key inputs	The higher discount rate, the lower fair value
Other financial assets at FVTPL	Assets - 48,268	Assets - 4,497	Level 3	Discounted cash flow. Risk-adjusted discount rate and cash flow are key inputs	The higher discount rate, the lower fair value

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

26. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Reconciliation of Level 3 fair value measurements of financial assets

	Other Financial assets at FVTPL RMB'000	Factoring assets at FVTOCI RMB'000
At 1 January 2020	4,497	3,837,348
Purchases	1,100	6,520,026
Settlements	(4,811)	(6,409,748)
Fair value changes through OCI	–	70
Fair value changes through profit or loss	47,482	–
At 30 June 2020	48,268	3,947,696

	Other Financial assets at FVTPL RMB'000	Factoring assets at FVTOCI RMB'000
At 1 January 2019	–	2,818,315
Purchases	4,610	6,313,606
Settlements	–	(5,501,733)
Fair value changes through OCI	–	(8,401)
Fair value changes through profit or loss	90	–
At 30 June 2019	4,700	3,621,787

All gains and losses included in OCI relate to factoring assets at FVTOCI are reported as changes of FVTOCI reserves.

In the current interim period, in relation to the factoring assets at FVTOCI, the Group recognised, net of ECL, fair value gains of RMB79.4 million (six months ended 30 June 2019: RMB37.4 million) in OCI. The Group reclassified amount RMB75.1 million (six months ended 30 June 2019: RMB35.9 million) recognised in OCI to profit and loss in relation to factoring assets at FVTOCI derecognised during the current interim period.

Fair value of financial instruments that are recorded at amortised cost

The fair values of financial assets and financial liabilities at amortised cost of the Group are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in condensed consolidated financial statements approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

27. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's factoring assets that were transferred to banks, non-bank financial institutions, companies and an associate by discounting those factoring assets on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these factoring assets, it continues to recognise the full carrying amount of the factoring assets and has recognised the cash received on the transfer as borrowings (note 22) and loans from related parties (note 28).

These financial assets are carried at FVTOCI in the Group's condensed consolidated statement of financial position.

	Factoring assets	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Carrying amount of transferred assets	734,240	462,512
Carrying amount of associated liabilities	822,739	447,668
Net position	(88,499)	14,844

28. RELATED PARTY DISCLOSURES

Save as disclosed in the condensed consolidated financial statements, the Group had the following balances which were outstanding at the end of the reporting period and the following transactions with related parties during both periods.

(a) Related party balances

(i) Refundable rental deposits

Name of Related Party	Relationship	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Bondlink Investment Limited	Related company with controlling shareholder	451	496

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

28. RELATED PARTY DISCLOSURES (continued)

(a) Related party balances (continued)

(ii) Amounts due from a related party

Name of Related Party	Relationship	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Sheng Ye (Shenzhen) Digital Technology Co., Ltd	Related company controlled by key managements	241	–

(iii) Trade receivables

Name of Related Party	Relationship	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
HJ	Associate	2,888	–

(iv) Factoring assets at FVTOCI

Name of Related Party	Relationship	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
HJ	Associate	468,535	181,472
WXGJ	Associate	9,179	–
		477,714	181,472

Other than the fixed-rate factoring assets at FVTOCI, the remaining balance carries interest at the range of 7.50% to 12.33% (31 December 2019: 10.20% to 17.00%) with principal amount of RMB473,105,000 (31 December 2019: RMB180,879,000) within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

28. RELATED PARTY DISCLOSURES (continued)

(a) Related party balances (continued)

(v) Loans from an associate

Name of Related Party	Relationship	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
WXGJ	Associate	117,405	–

The amounts represent the loans, due within one year, and carry interest at the rate of 8.70% per annum. As at 30 June 2020, the remaining loan principal is RMB116,347,000 with a total carrying amount of RMB117,405,000.

The loans were secured by certain factoring assets of the Group with an aggregate carrying values of RMB75,392,000, in respect of which the legal title and legal right to receive cash flows was also transferred to the lender. Details of the transfer of financial assets are set out in note 27.

(vi) Contract liabilities

Name of Related Party	Relationship	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
WXGJ	Associate	157	393
HJ	Associate	–	279
		157	672

(vii) Liabilities arising from guarantee contracts

Name of Related Party	Relationship	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
WXGJ	Associate	6,416	2,247

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

28. RELATED PARTY DISCLOSURES (continued)

(a) Related party balances (continued)

(viii) Lease liability

Name of Related Party	Relationship	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Bondlink Investment Limited	Related company with controlling shareholder	2,712	492

In April 2018, the Group and Bondlink Investment Limited entered into a lease agreement over a property with a lease term that expires on 15 April 2020. Prior to maturity of the existing lease contract, the Group and Bondlink Investment Limited entered into a new lease contract over the same property for the period from 16 April 2020 until 15 April 2022, and the lease payment was changed. At the effective date of the modification, the Group remeasured the lease liability and the difference amounting to RMB3,009,000 between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification as an adjustment to the right-of-use asset.

(b) Related party transactions

(i) Revenue from related parties

Name of Related Party	Relationship	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
HJ	Associate	31,086	326
SYNFGL	Associate	2,272	390
WXGJ	Associate	827	–
Shenzhen Sheng Peng Non-Financing Guarantee Limited	Associate	–	261
		34,185	977

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

28. RELATED PARTY DISCLOSURES (continued)

(b) Related party transactions (continued)

(ii) Interest income from loans to associates

Name of Related Party	Relationship	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Shenzhen Sheng Peng Non-Financing Guarantee Limited	Associate	–	33
SYNFGL	Associate	–	31
		–	64

(iii) Interest expenses on loans from related parties

Name of Related Party	Relationship	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
WXGJ	Associate	4,190	3,413
Tianjin Zhuguang Shengye Enterprise Management Consulting Co., Ltd (former name as "Zhu Guang Sheng Ye Factoring Limited")	Joint venture	–	280
HJ	Associate	–	72
		4,190	3,765

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

28. RELATED PARTY DISCLOSURES (continued)

(b) Related party transactions (continued)

(iv) Interest expenses on a lease liability

Name of Related Party	Relationship	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Bondlink Investment Limited	Related company with controlling shareholder	40	61

(v) Compensation of key management personnel

During the reporting period, the remunerations of key management personnel which represent the directors of the Company and other members of key management were as follows:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Salaries and other allowances	7,653	4,468
Share-based payment	144	4,131
Performance related bonuses	4,864	–
Retirement benefit scheme contributions	50	156
	12,711	8,755

The remuneration of these key executives of the Group is determined by Chairman of the Company having regard to the performance of individuals and market trends.

(c) Financial assets purchased from an associate

In January 2020, WXGJ sold factoring assets of RMB94,591,000 to the Group. WXGJ had transferred the significant risks and rewards relating to these factoring assets pursuant to the terms of sale agreements signed between WXGJ and the Group.

(d) Borrowings and guarantee

In September 2018, a related company of the controlling shareholder purchased bonds issued by the Group amounting of RMB700,000,000 and the interest of these bonds for the six months ended 30 June 2019 was RMB25,891,000. The bonds were fully settled in September 2019.

Details of the guarantee to an associate and borrowings are set out in notes 21 and 22 respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

29. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 15 July 2020, the Company granted 17,400,000 share options to all directors and eligible employees of the Group to subscribe for the ordinary shares of the Company with an exercise price of HK\$6.68 per share and for a validity period of 5 years.