



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Sai Wang Stephen
(Chief Executive Officer)
Mr. Liu Sai Keung Thomas
(Chief Operating Officer)

Non-Executive Directors

Mr. Ma Ting Hung (Chairman)
Ms. Shen Jing
Mr. Yip Ka Kay

Independent Non-Executive Directors

Mr. Chen Penghui
Mr. Wu Chak Man

AUDIT COMMITTEE

Mr. Wu Chak Man (Chairman)
Mr. Chen Penghui
Mr. Yip Ka Kay

REMUNERATION COMMITTEE

Mr. Chen Penghui (Chairman)
Mr. Liu Sai Wang Stephen
Mr. Wu Chak Man

NOMINATION COMMITTEE

Mr. Ma Ting Hung (Chairman)
Mr. Chen Penghui
Mr. Wu Chak Man

AUTHORIZED REPRESENTATIVES

Mr. Ma Ting Hung
Mr. Cha Johnathan Jen Wah

COMPANY SECRETARY

Mr. Cha Johnathan Jen Wah

REGISTERED OFFICE

TMF Group (Cayman) Ltd
2nd Floor
The Grand Pavilion Commercial Center
802 West Bay Road
P.O. Box 10338
Grand Cayman KY1-1003
Cayman Islands

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PRINCIPAL PLACE OF BUSINESS IN PRC

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PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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The Grand Pavilion Commercial Center
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG LEGAL ADVISER

Skadden, Arps, Slate, Meagher & Flom
42/F, Edinburgh Tower, The Landmark
15 Queen's Road Central, Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central, Hong Kong

PRINCIPAL BANKER

China Construction Bank
(Suzhou Yuanqu Branch)

STOCK CODE

2003

WEBSITE

<http://www.vcredit.com>



Letter from the CEO

Dear Shareholders,

The outbreak of the COVID-19 pandemic in January 2020 and the subsequent measures taken to restrict its spread among the population, such as social distancing and lockdown, have constrained the lives of all and severely affected the business activities and economic outlook, with no exceptions for the consumer finance sector in China. The various levels of interruption and suspension of normal daily activities for a significant part of the first half of 2020 increased the operational challenges of participants in the Chinese consumer finance sector and forced the adoption of more prudent policies to prevent asset quality deterioration and to mitigate increased credit risk.

Our business during the first six months ended June 30, 2020 (the “**Period**”) has undoubtedly been affected by the COVID-19 pandemic outbreak and has been the principal contributor to our reported loss in our interim results for the Period. Whilst our financial performance for the Period is disappointing, I believe we have maintained the stability of our business by rapidly implementing a series of operational adjustments, including tightening our risk underwriting policies and post-loan services and payment collection activities as well as adopting a more prudent policy to control loan origination and minimizing the adverse impact of the outbreak.

OPERATIONAL PERFORMANCE

Our loan origination volume of online credit products for the Period was RMB13.31 billion, a decrease of 7.6% compared to the corresponding period last year and our outstanding loan balance of online credit products was RMB14.72 billion as at June 30, 2020, representing a 15.8% decrease compared to RMB17.48 billion as at December 31, 2019. Average loan tenor of our online credit products for the Period was 8.8 months, as compared to 9.5 months for 2019.

The COVID-19 pandemic related lockdown and social distancing measures implemented across cities in China caused a slowdown in consumer consumption activities, which in turn weakened credit demand and asset quality. In order to stabilize our asset quality amidst these challenging conditions during this difficult period, we exercised greater caution over loan origination and primarily focused on lending to prime borrowers in the first half of 2020, steering away from near-prime borrowers. We continuously refined our credit policies to cope with the challenges in the market and optimized our score card for new borrowers to better sift prime customers among applicants. Additionally, for existing borrowers with proven creditworthiness, we worked on improving customer loyalty and encouraging repeat borrowing by more actively pre-approving and extending credit lines to them. For the Period, the average loan ticket size was RMB11,192, representing a 43.6% increase compared to RMB7,796 for the corresponding period in 2019.

In addition to the negative impact of the COVID-19 pandemic, borrowers incurred income uncertainty as a result of the delayed business resumption after the Chinese Spring Festival. This led to a hike in loan repayment defaults in February 2020, for which we have tried to remediate by dedicating more resources to loan collection efforts. We were able to set up multiple virtual telephone lines on a private and secure IT platform with borrower personal data encrypted for our loan collection staff to continue telecommunicating with our borrowers to ensure the effectiveness of our loan collection efforts. Although delinquency ratios increased at the beginning of the Period, there has been a clear improving trend since March 2020 in the First Payment Delinquency Ratios (being the total balance of outstanding principal amount of the loans we originated in the applicable period that were delinquent on their first payment due dates divided by the aggregate loan origination volume in the same period), one of our leading indicators of asset quality for newly originated loans. The First Payment Delinquency Ratio has reduced from 2.7% in January 2020 to 0.8% in June 2020.

During the Period, our funding costs fell as a result of the ease in monetary policy and reduction in the loan prime rate by the People's Bank of China to alleviate the adverse impact of the COVID-19 pandemic on the economy. In addition, to ensure that we obtained funding at a cost in line with prevailing market rates from established partners, we also altered the scale of funding cooperation through a progressive pricing structure which enabled us to negotiate more favorable terms for our borrowers.

We have managed to continue expanding our partnerships with licensed financial institutions in this challenging environment. By the end of the Period, we had cooperations with 64 licensed institutions in various aspects of our consumer finance business including trust lending, credit enhancement and loan facilitation. Our funding partners value our core capabilities in customer acquisition and complementary risk assessment and have been showing strong support in navigating through the challenges together. During the Period, our total loan origination volume consummated through credit-enhanced and pure loan facilitation structures amounted to RMB8.19 billion or 61.6% of total loan origination volume, and total loan origination volume consummated through direct and trust structures amounted to RMB5.12 billion or 38.4% of total loan origination volume.

We have made further progress in our talent identification and recruitment. We introduced a talent mobility program (《員工活水計劃項目》) during the first half of 2020. This program provides more career development opportunities for our employees, while ensuring an open and efficient human capital management. Management innovations such as this enable us to constantly streamline our organization structure.

FINANCIAL PERFORMANCE

We recorded a net loss of RMB1,081.2 million and an adjusted net loss of RMB1,042.0 million for the Period, compared with a net profit of RMB6.2 million and an adjusted net profit of RMB192.8 million for the corresponding period in 2019, mainly due to the draconian adverse impact of the COVID-19 pandemic on the business and operations of VCREDIT Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”). As a consequence of the COVID-19 pandemic, we experienced a decrease in loan origination volume and an increase in delinquency rates for loan repayments which resulted in a decrease in total income and increases in the fair value loss and loss from guarantee in the Group's loan portfolio.

Whilst the increases in fair value loss and loss from guarantee in the Group's loan portfolio attributed to our net loss for the Period, they are not reflected in our cash flows during the Period. We were able to maintain healthy cash flows and cash balance for operations during the Period thanks to timely measures taken to manage and enhance our liquidity. As at June 30, 2020, we had cash and cash equivalents of RMB1.81 billion.

Our operating expenses, excluding share-based compensation expenses, increased by 17.8% to RMB530.0 million as we invested more resources to strengthen our loan collection efforts to control credit risk as a result of the COVID-19 impact.

In the second quarter, we achieved constant recovery and subsequently improvements in asset quality and resumption of loan origination volume growth, driven by the recovery in the Chinese economy and our efforts in enhancing operations. We do expect such improvements in our business and operations will positively contribute to our financial performance in the second half of 2020.

OUTLOOK AND STRATEGIES

Since January 2020, the COVID-19 pandemic has brought unprecedented downward pressure on the economy and to the consumer finance industry in China. However, with effective counter measures imposed by the Chinese government, the entire economy has almost been restored to pre-pandemic levels. The Central Government has also implemented effective fiscal and monetary policies to alleviate the impact of the COVID-19 pandemic, which has strongly supported China's economic recovery and brought new development opportunities to the consumer finance industry. Whilst we may see volatilities in the short-term, we believe that China's economy is sufficiently resilient and has great potential to continue its growth in the long term and there will continue to be growing demand for consumer finance products.

In July 2020, the China Banking and Insurance Regulatory Commission issued the Interim Measures for the Administration of Internet Loans of Commercial Banks (《商業銀行互聯網貸款管理暫行辦法》) to regulate the internet loan business of commercial banks and promote the sound development of the internet loan business. We believe that business partners of commercial banks, such as information technology companies, insurance companies, guarantee companies and others, engaged in online lending businesses must strictly comply with these Measures and this will benefit those consumer finance participants such as us who maintain high regulatory compliance standards.

Through the COVID-19 pandemic, we have come to be even more deeply convinced of the importance of our technology-driven strategy. During the quarantine period imposed to limit the spread of the pandemic, our technology advantages meant we were able to maintain our daily operation with minimal disruption and this has strengthened our determination to ensure technology research and development and enhancement remain at the forefront of our business strategy. In the future, we will continue to develop our technology capabilities and digitalize our processes so that we are able to apply them intelligently to our whole business cycle from customer acquisition, to risk management, and to repayment collection.

Our management team remains confident in China's economy and the online consumer finance industry. We will continue to develop our competitive advantages and explore new opportunities to further improve the Company's efficiency. With our inspired team, technology-centric and compliance focused strategy, we will continue our drive for sustainable growth and to create value for our customers, stakeholders and the wider community.

Last but not least, I, on behalf of the Company and its directors and staff, wish to convey our sincerest and deepest wishes for the wellbeing of all during these difficult COVID-19 pandemic times.

Sincerely,

Liu Sai Wang Stephen

Executive Director and Chief Executive Officer

Shanghai, August 18, 2020

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		Change
	2020	2019	
	RMB million	RMB million	
Total income	1,203.8	1,860.2	-35.3%
Interest type income	1,310.6	1,152.6	13.7%
Less: interest expenses	(446.5)	(395.9)	12.8%
Loan facilitation service fees	238.2	572.9	-58.4%
Other income	101.5	530.6	-80.9%
Operating (Loss)/Profit	(1,339.1)	57.4	NM
Net (Loss)/Profit	(1,081.2)	6.2	NM
Non-IFRS Adjusted Operating (Loss)/Profit ⁽¹⁾	(1,299.9)	244.0	NM
Non-IFRS Adjusted Net (Loss)/Profit ⁽²⁾	(1,042.0)	192.8	NM

Notes:

- (1) Non-IFRS Adjusted Operating (Loss)/Profit is defined as operating (loss)/profit for the Period excluding share-based compensation expenses. For more details, please see the section headed "Non-IFRS Measures" below.
- (2) Non-IFRS Adjusted Net (Loss)/Profit is defined as net (loss)/profit for the Period excluding share-based compensation expenses. For more details, please see the section headed "Non-IFRS Measures" below.

BUSINESS REVIEW AND OUTLOOK

Our business performance in the first half of 2020 was heavily impacted by the COVID-19 pandemic, and our experience from this difficult period has strengthened our conviction that technology, risk management and compliance must be the core of our fintech business. Through the rapid technological advances and improved risk control measures, we have overcome external challenges to maintain services to our borrowers across China.

Throughout 2019, the online consumer lending sector had been overshadowed by concerns of rising asset quality risk associated with further regulatory tightening that clamped down on undesirable debt collection practices and precipitated P2P exits from the market. Against this backdrop, asset quality risk was one of our biggest concerns at the start of 2020 and this concern intensified in the first quarter of 2020 due to the spread of the COVID-19 pandemic and the impact of measures implemented in China to combat the pandemic, including lockdown measures and a halt in business activities, in the months from January to March 2020. Thanks to the effective measures implemented by the Chinese government to contain the outbreak, working and living conditions started to return to normal levels in April 2020. Whilst we saw a deterioration in our asset quality in the first quarter of 2020, consistent with market conditions, our asset quality gradually improved and our asset quality ratios returned to levels even lower than before the pandemic outbreak as a result of the responsive directed risk control measures we implemented to manage and mitigate our credit risk exposure. As the P2P exits come to an end and the crackdown on undesirable debt collection methods permeates the market, we believe asset quality stabilizing in the consumer lending sector in China will benefit us in the long run.

Management Discussion and Analysis

The following table sets forth a breakdown of the loan origination volume by funding structure for the periods indicated.

Loan Origination Volume	Six months ended June 30,			
	2020		2019	
	RMB million	%	RMB million	%
Direct lending	69.7	0.5%	215.4	1.5%
Trust lending	5,049.4	37.9%	5,056.9	35.1%
Credit-enhanced loan facilitation	8,055.1	60.5%	7,757.5	53.9%
Pure loan facilitation	139.2	1.1%	1,373.1	9.5%
Total	13,313.4	100.0%	14,402.9	100.0%

Out of all the loans originated by us, the outstanding loan principal calculated using amortization schedule is defined as outstanding balance of loans to customers. The table below sets forth the breakdown of outstanding balance of loans to customers by product line as at the dates indicated.

Outstanding Balance of Loans to Customers	As at June 30, 2020		As at December 31, 2019	
	RMB million	%	RMB million	%
Credit card balance transfer products	3,755.6	23.9%	6,092.7	31.8%
Consumption credit products	10,959.4	69.9%	11,391.6	59.5%
Online-to-offline credit products	973.7	6.2%	1,653.4	8.7%
Total	15,688.7	100.0%	19,137.7	100.0%

Asset Quality

The COVID-19 pandemic has had a major impact on the Chinese and global economy. Confronted with a complex market situation continuing from last year and rising credit risks spurred by the outbreak, our asset quality experienced sudden but temporary volatilities in the first half of 2020. To address this amid the severe external environment, we revamped risk models and adopted more prudent and tightened risk credit policies by granting credits to customers with better risk profiles, developed a more intelligent score card system to identify our existing customers' credit risks for prompt and appropriate customer maintenance and reduced credit exposure to customers in geographic areas and industries more seriously impacted by the COVID-19 pandemic. In the first quarter of 2020, our first payment delinquency ratio⁽¹⁾ reached 2.0%, but with our effective risk management policies, the ratio declined to 0.8% in the second quarter of 2020. We estimate that our first payment delinquency ratio will remain at a level of about 1.0% in the second half of 2020. The corresponding M1-M3 ratio⁽²⁾ and M3+ ratio⁽³⁾ are also expected to peak out in the third quarter of 2020 and gradually come down to their pre-pandemic levels in the fourth quarter of 2020, similar to our experience of the market disruptions caused by the promulgation of Circular 141 at the end of 2017 and M3+ ratio culmination in the second quarter of 2018 followed by normalization in subsequent quarters.

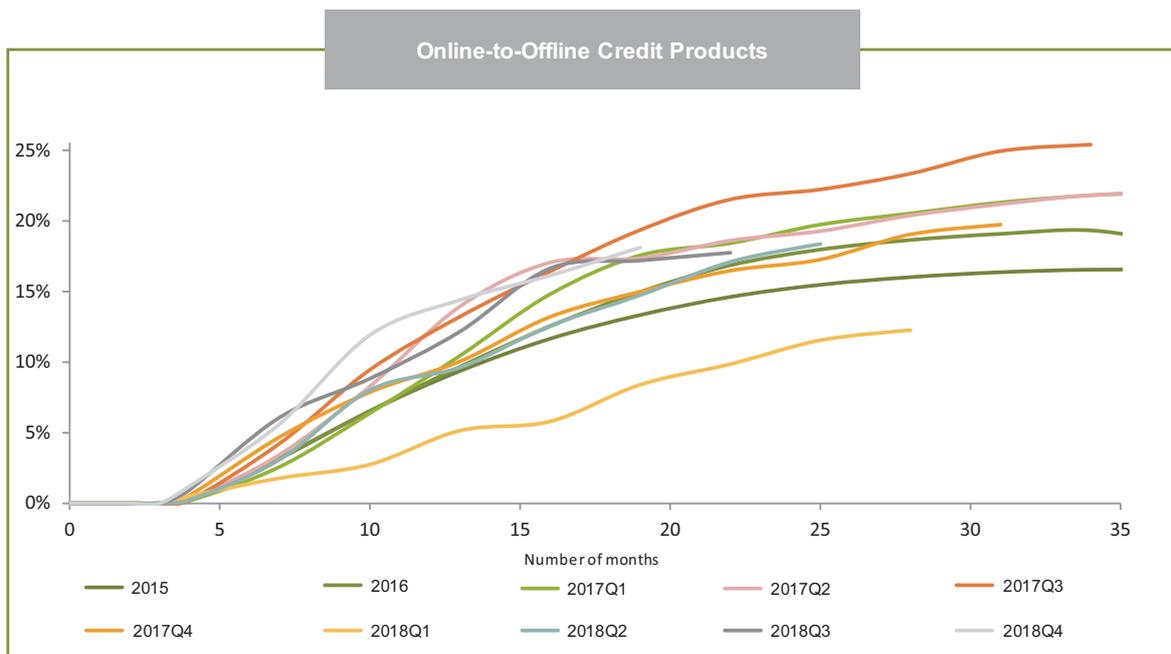
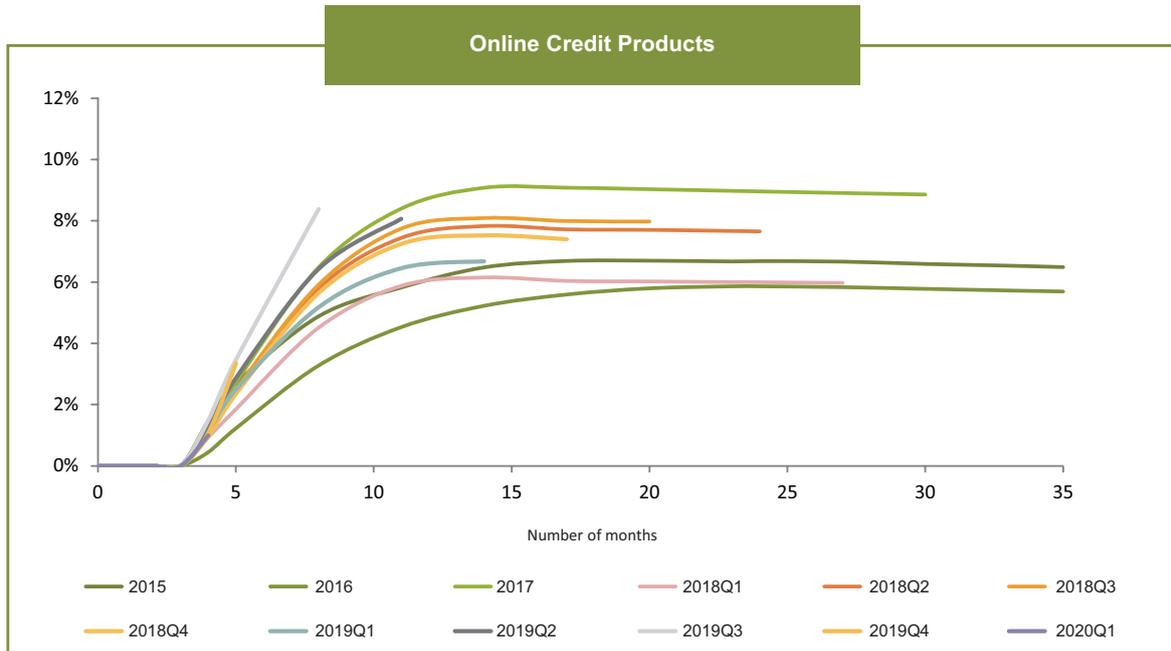
	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2
First payment delinquency ratio ⁽¹⁾	1.5%	1.6%	1.7%	1.6%	1.7%	2.1%	2.4%	2.1%	2.0%	0.8%
M1-M3 ratio ⁽²⁾	6.2%	4.5%	3.7%	3.5%	3.9%	3.6%	3.5%	4.1%	6.2%	7.2%
M3+ ratio ⁽³⁾	4.8%	7.7%	6.2%	5.0%	5.0%	4.7%	4.3%	4.2%	5.2%	7.7%

Notes:

- (1) First payment delinquency ratio is defined as the total balance of outstanding principal amount of the loans we originated in the applicable period that were delinquent on their first payment due dates divided by the aggregate loan origination volume in that period.
- (2) M1-M3 ratio is calculated by dividing (i) the outstanding balance of loans which have been delinquent up to 3 months, by (ii) the total outstanding balance of loans to customers.
- (3) M3+ ratio is calculated by dividing (i) the outstanding balance of loans which have been delinquent for more than 3 months and have not been written off by (ii) the total outstanding balance of loans to customers.

Management Discussion and Analysis

The following diagrams set forth our latest Cohort-Based M3+ Delinquency Ratios⁽⁴⁾ by product groups.



Note:

- (4) Cohort-Based M3+ Delinquency Ratios is defined as (i) the total amount of principal for all the loans in a vintage that have become delinquent for more than 3 months, less (ii) the total amount of recovered past due principal, and then divided by (iii) the total amount of initial principal for all loans in such vintage.

Outlook and Strategies

Under the volatile external environment caused by the COVID-19 pandemic, we are committed to maintaining stable business operations and defending our business model. Therefore, moving forward, we intend to continue to execute the following strategies to retain our position in the consumer finance industry.

- Continue to carry out our technology-driven strategy to improve our risk management capabilities
- Strengthen compliance under changing regulatory environment
- Take further action on costs in response to the weaker revenue environment, continue on-going cost saving initiatives and reduce operating expenses
- Foster relationships with financial institutions to export our advantages in technologies
- Enhance our cooperation structure with funding partners to optimize our cash flow

Total Income

We derived our total income through (i) net interest type income, (ii) loan facilitation service fees, and (iii) other income. Our total income decreased by 35.3% to RMB1,203.8 million for the Period, compared to RMB1,860.2 million for the six months ended June 30, 2019, primarily due to a decrease in loan origination volume and an increase in delinquency rates as a result of the impact of the COVID-19 pandemic during the first quarter of 2020.

Net Interest Type Income

Our net interest type income is comprised of (i) interest type income and (ii) interest expenses. The following table sets forth our net interest type income for the periods indicated.

Net Interest Type Income	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
Interest type income	1,310,586	1,152,633
Less: interest expenses	(446,484)	(395,939)
Total	864,102	756,694

For the Period, we recorded interest type income of RMB1,310.6 million, which was generated from loans to customers originated under direct lending and trust lending structures. The increase in interest type income, compared to RMB1,152.6 million for the six months ended June 30, 2019, was primarily due to an increase in the average outstanding loan balance as a result of the loans originated in the second half of 2019. Interest expenses increased by 12.8% to RMB446.5 million for the Period, compared to RMB395.9 million for the six months ended June 30, 2019. The increase in interest expenses primarily resulted from the interest expenses in respect of the US\$100 million 11.0% senior notes due 2021 issued on June 21, 2019 (the "Senior Notes").

Management Discussion and Analysis

The following table sets forth a breakdown of our interest type income by product line in absolute amounts and as percentages of our total interest type income for the periods indicated.

Interest Type Income	Six months ended June 30,			
	2020		2019	
	RMB'000	%	RMB'000	%
Credit card balance transfer products	325,215	24.8%	387,034	33.6%
Consumption credit products	937,022	71.5%	443,774	38.5%
Online-to-offline credit products	48,349	3.7%	321,825	27.9%
Total	1,310,586	100.0%	1,152,633	100.0%

Loan Facilitation Service Fees

Loan facilitation service fees decreased by 58.4% to RMB238.2 million for the Period, compared to RMB572.9 million for the six months ended June 30, 2019. The decrease in loan facilitation service fees was driven by a decrease in facilitation fee rates and loan origination volume as a result of a more conservative strategy adopted during the first quarter of 2020 in the face of the spread of the COVID-19 pandemic. Loans originated through credit-enhanced and pure loan facilitation structures decreased by 10.3% to RMB8,194.3 million for the Period, compared to RMB9,130.6 million for the six months ended June 30, 2019. The following table sets forth a breakdown of our loan facilitation service fees for our credit-enhanced loan facilitation structure and our pure loan facilitation structure for the periods indicated.

Loan Facilitation Service Fees	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
Credit-enhanced loan facilitation	228,214	516,834
Pure loan facilitation	9,959	56,031
Total	238,173	572,865

For the Period, the upfront loan facilitation service fees decreased to RMB160.0 million, compared to RMB535.0 million for the six months ended June 30, 2019. The following table sets forth the allocation of our loan facilitation service fees for the periods indicated.

Loan Facilitation Service Fees	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
Upfront loan facilitation service fees	159,983	534,996
Post loan facilitation service fees	78,190	37,869
Total	238,173	572,865

Other Income

Other income decreased by 80.9% to RMB101.5 million for the Period, compared to RMB530.6 million for the six months ended June 30, 2019. The decrease in other income was primarily due to a decrease in referral fees and an increase in delinquency rates for loan repayments reflected in losses from guarantees as a result of the adverse impact of the COVID-19 pandemic during the first quarter of 2020.

The following table sets forth a breakdown of our other income for the periods indicated.

Other Income	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
Membership fees and referral fees	301,047	500,525
Penalty and service charges	183,419	125,094
Government grants	34,975	—
Technology and professional service fees	—	16,212
Losses from guarantee	(421,526)	(116,192)
Others	3,636	5,021
Total	101,551	530,660

Expenses

Origination and Servicing Expenses

Our origination and servicing expenses increased by 22.7% to RMB370.3 million for the Period, compared to RMB301.9 million for the six months ended June 30, 2019, due to our increased efforts on loan collection after the outbreak and spread of the COVID-19 pandemic, part of our credit risk management measures to improve loan collection recovery rates and delinquency trends.

Sales and Marketing Expenses

Our sales and marketing expenses decreased by 40.3% to RMB8.8 million for the Period, compared to RMB14.7 million for the six months ended June 30, 2019, due to a decrease in branding expenses and reallocation of resources to improve operation efficiency.

General and Administrative Expenses

Our general and administrative expenses decreased by 45.5% to RMB153.2 million for the Period, compared to RMB281.0 million for the six months ended June 30, 2019, primarily due to a decrease in personnel related expenses, and which include reduced share-based compensation of RMB39.2 million for the Period, compared to RMB186.6 million for the six months ended June 30, 2019, as share options of resigned employees lapsed during the Period.

Research and Development Expenses

Our research and development expenses decreased by 5.2% to RMB36.9 million for the Period, compared to RMB38.9 million for the six months ended June 30, 2019, primarily due to overall cost saving in respect of non-essential research and development expenses.

Management Discussion and Analysis

Operating (Loss)/Profit

We recorded an operating loss of RMB1,339.1 million for the Period, compared to an operating profit of RMB57.4 million for the six months ended June 30, 2019, mainly due to the adverse impact of the COVID-19 pandemic during the first quarter of 2020 which led to an increase in delinquency rates for loan repayments and an increase in fair value loss in the loan portfolio.

Net (Loss)/Profit

We recorded a net loss of RMB1,081.2 million for the Period, compared to a net profit of RMB6.2 million for the six months ended June 30, 2019, which is consistent with our operating (loss)/profit.

Non-IFRS Adjusted Operating (Loss)/Profit

Our Non-IFRS adjusted operating loss was RMB1,299.9 million for the Period, compared to our Non-IFRS adjusted operating profit of RMB244.0 million for the six months ended June 30, 2019, primarily as a result of the adverse impact of the COVID-19 pandemic during the first quarter of 2020.

Non-IFRS Adjusted Net (Loss)/Profit

Our Non-IFRS adjusted net loss was RMB1,042.0 million for the Period, compared to our Non-IFRS adjusted net profit of RMB192.8 million for the six months ended June 30, 2019, which is in line with our Non-IFRS adjusted operating (loss)/profit.

Non-IFRS Measures

To supplement our historical financial information, which is presented in accordance with International Financial Reporting Standards (“IFRS”), we also use Non-IFRS adjusted operating (loss)/profit and Non-IFRS adjusted net (loss)/profit as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these Non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impact of items that our management do not consider to be indicative of our operating performance. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations and financial position in the same manner as they help our management. From time to time in the future, there may be other items that the Company may exclude in reviewing its financial results. Our presentation of the Non-IFRS adjusted operating (loss)/profit and Non-IFRS adjusted net (loss)/profit may not be comparable to similarly titled measures presented by other companies. The use of these Non-IFRS measures has limitations as analytical tools, and should not be considered in isolation from, or as substitutes for analysis of, our results of operations or financial position as reported under IFRS.

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
Operating (Loss)/Profit	(1,339,063)	57,363
Add:		
Share-based compensation expenses	<u>39,180</u>	<u>186,606</u>
Non-IFRS Adjusted Operating (Loss)/Profit	<u>(1,299,883)</u>	<u>243,969</u>
Non-IFRS Adjusted Operating (Loss)/Profit Margin⁽¹⁾	<u>-108.0%</u>	<u>13.1%</u>

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Net (Loss)/Profit	(1,081,228)	6,174
Add:		
Share-based compensation expenses	39,180	186,606
Non-IFRS Adjusted Net (Loss)/Profit	(1,042,048)	192,780
Non-IFRS Adjusted Net (Loss)/Profit Margin⁽²⁾	-86.6%	10.4%

Notes:

- (1) Non-IFRS adjusted operating (loss)/profit margin is calculated by dividing the Non-IFRS adjusted operating (loss)/profit by the total income.
- (2) Non-IFRS adjusted net (loss)/profit margin is calculated by dividing the Non-IFRS adjusted net (loss)/profit by the total income.

Loans to Customers at Fair Value through Profit or Loss

Our loans to customers at fair value through profit or loss decreased by 43.6% to RMB5,338.3 million as at June 30, 2020, compared to RMB9,457.7 million as at December 31, 2019, primarily due to the decrease in loan origination loan volume resulting from the impact of the COVID-19 pandemic on operations. Our loans to customers at fair value through profit or loss primarily represent the total balance of loans originated by us through our trust lending and direct lending structures.

	As at June 30, 2020		As at December 31, 2019	
	RMB'000	%	RMB'000	%
Credit card balance transfer products	1,170,428	21.9%	2,003,501	21.2%
Consumption credit products	3,513,495	65.8%	6,097,252	64.5%
Online-to-offline credit products	654,385	12.3%	1,356,920	14.3%
Total	5,338,308	100.0%	9,457,673	100.0%

Management Discussion and Analysis

Contract Assets

Our contract assets decreased by 57.6% to RMB221.7 million as at June 30, 2020, compared to RMB523.0 million as at December 31, 2019, attributable to a decrease in facilitation fee rates and decrease of loan origination volume as a result of a more conservative strategy adopted during the first quarter of 2020 in the face of the outbreak and spread of the COVID-19 pandemic.

	As at June 30, 2020 RMB'000	As at December 31, 2019 RMB'000
Contract assets	311,525	655,815
Less: expected credit losses (“ECL”) allowance	(89,798)	(132,793)
	221,727	523,022

Guarantee Receivables and Guarantee Liabilities

Our guarantee receivables increased by 36.2% to RMB616.4 million as at June 30, 2020 compared to RMB452.6 million as at June 30, 2019. The guarantee liabilities increased by 12.8% to RMB688.4 million as at June 30, 2020 compared to RMB610.5 million as at June 30, 2019. The changes in guarantee receivables and guarantee liabilities are primarily due to the increase of ECL as a result of higher delinquency rates.

	Six months ended June 30, 2020 RMB'000	2019 RMB'000
Guarantee Receivables		
Opening balance	621,248	206,146
Addition arising from new business	735,002	611,209
ECL	(108,579)	(62,364)
Reversal due to early repayment	(59,441)	(32,903)
Payment received from borrowers	(571,838)	(269,502)
Ending Balance	616,392	452,586

	Six months ended June 30, 2020 RMB'000	2019 RMB'000
Guarantee Liabilities		
Opening balance	723,617	204,496
Addition arising from new business	735,002	611,209
Release of the margin	(41,606)	(34,141)
ECL	463,132	150,333
Reversal due to early repayment	(59,441)	(32,903)
Payouts during the period, net	(1,132,311)	(288,530)
Ending Balance	688,393	610,464

Borrowings and Senior Notes

Our total borrowings and Senior Notes, as recorded in our interim condensed consolidated statement of financial position, comprise (i) payable to trust plan holders, (ii) borrowings from corporations, and (iii) Senior Notes. Our total borrowings decreased by 37.3% to RMB6,221.3 million as at June 30, 2020, compared to RMB9,915.2 million as at December 31, 2019, primarily due to decrease of loans originated by us through our trust lending structure. The following table sets forth a breakdown of our borrowings by nature as at the dates indicated.

	As at June 30, 2020		As at December 31, 2019	
	RMB'000	%	RMB'000	%
Payable to trust plan holders	4,968,460	79.9%	8,637,946	87.1%
Borrowings from corporations	557,332	8.9%	598,383	6.1%
	5,525,792	88.8%	9,236,329	93.2%
Senior Notes	695,475	11.2%	678,829	6.8%
Total	6,221,267	100.0%	9,915,158	100.0%
			As at June 30, 2020	As at December 31, 2019

Weighted Average Interest Rates of Borrowings and Senior Notes

Payable to trust plan holders	10.6%	11.0%
Borrowings from corporations	11.9%	10.5%
Borrowings from individuals	—	10.0%
Secured borrowings	—	6.2%
Senior Notes	11.0%	11.0%

Gearing ratio

As at June 30, 2020, our gearing ratio, calculated as total liabilities divided by total assets, was approximately 78.6%, which is stable as compared with our gearing ratio of 78.3% as at December 31, 2019.

As at June 30, 2020, our consolidated debt to equity ratio, calculated as the sum of borrowings, Senior Notes, lease liabilities and guarantee liabilities divided by total equity, was approximately 3.4, which is unchanged as compared with our consolidated debt to equity ratio of 3.4 as at December 31, 2019.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from cash generated from operating activities and capital contribution from shareholders of the Company (the “Shareholders”).

Cash Flows

The following table sets forth our cash flows for the periods indicated.

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
Net cash inflow from operating activities	3,818,076	1,791,972
Net cash outflow from investing activities	(3,171)	(89,755)
Net cash outflow from financing activities	(4,170,254)	(862,493)
Net (decrease)/increase in cash and cash equivalents	(355,349)	839,724
Cash and cash equivalents at the beginning of the period	2,169,524	1,050,112
Effects of exchange rate changes on cash and cash equivalents	(121)	(14)
Cash and cash equivalents at the end of the period	1,814,054	1,889,822

Our cash inflow generated from operating activities primarily consists of principal and interest, loan facilitation service fees and other service fees received from the consumer finance products we offered. Our cash outflow used in operating activities primarily consists of cash payment of guarantee indemnification, employee salaries and benefits, taxes and surcharges, and other operating expenses. We had net cash inflow generated from operating activities of RMB3,818.1 million for the Period, as compared to net cash inflow of RMB1,792.0 million for the six months ended June 30, 2019. For the Period, net cash inflow from operating activities increased primarily due to the development of loans originated by trust lending structure in the second half of 2019.

We had net cash outflow from investing activities of RMB3.2 million for the Period, as compared to net cash outflow of RMB89.8 million for the six months ended June 30, 2019. Our net cash outflow decreased RMB86.6 million due to there being no payment of financial assets at fair value through profit or loss in the first half of 2020.

We had net cash outflow from financing activities of RMB4,170.3 million for the Period, as compared to net cash outflow of RMB862.5 million for the six months ended June 30, 2019. For the Period, we had net cash outflow from trust plans of RMB3,642.6 million and payment of interest expenses of RMB467.0 million, as compared to net cash outflow from trust plans of RMB822.6 million and payment of interest expenses of RMB398.5 million for the six months ended June 30, 2019, due to the repayments of trust plans. There were no debt securities issued in the first half of 2020, while the Senior Notes led to a net cash inflow of RMB660.6 million in the first half of 2019.

CAPITAL COMMITMENTS, CHARGES ON ASSETS AND CONTINGENCIES

Capital Commitments

The Group did not have any significant capital commitments contracted for at the end of the Period but not recognised as liabilities as at June 30, 2020.

Charges on Assets

The Group did not have any charges on assets as at June 30, 2020.

Contingencies

Save as disclosed in this report, the Group did not have any significant contingent liabilities as at June 30, 2020.

ACQUISITIONS AND DISPOSALS

Material Investments and Acquisitions

Save as disclosed in this report, the Group did not hold any material investments or make any material acquisitions during the Period.

Future Plans for Material Investments and Capital Assets

Save as disclosed in this report, the Group does not have any present plans for other material investments and capital assets.

FOREIGN EXCHANGE EXPOSURE

Foreign currency transactions during the Period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing as at June 30, 2020. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations with functional currency other than RMB are translated into RMB at the exchange rates approximating to the foreign exchange rates prevailing at the dates of translation. Consolidated statement of financial position items are translated into RMB at the closing foreign exchange rates prevailing as at June 30, 2020. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than RMB, the cumulative amount of the exchange differences relating to that operation with functional currency other than RMB is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.



Other Information

INTERIM DIVIDEND

The board (the “**Board**”) of directors of the Company (the “**Directors**”) does not recommend the payment of an interim dividend for the Period (six months ended June 30, 2019: Nil).

DIRECTORS’ AND EMPLOYEES’ REMUNERATION AND POLICY

Directors’ and senior management’s remuneration is determined by the remuneration committee and the Board. No Director has waived or agreed to waive any emoluments.

As at June 30, 2020, the Group had a total of 605 employees.

The Group seeks to attract, retain and motivate high quality staff to be able to continuously develop its business. Remuneration packages are designed to ensure comparability within the market and competitiveness with other companies engaged in the same or similar industry with which the Group competes and other comparable companies. Emoluments are also based on an individual’s knowledge, skill, time commitment, responsibilities and performance and by reference to the Group’s overall profits, performance and achievements.

The employees of the Group’s subsidiaries which operate in China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme.

The Group operates a defined scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees in Hong Kong who are eligible to participate. Contributions are made based on a percentage of the employees’ basic salaries. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group’s employer contributions vest fully with the employees when contributed into the scheme.

The Company operates a number of share incentive schemes for the purpose of providing share based incentives and rewards to eligible persons (see section headed “Share Incentive Schemes” below).

CORPORATE GOVERNANCE CODE

The Company has, throughout the Period, applied the principles and complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct to regulate dealings in the securities of the Company by Directors and senior management of the Company. Each Director has confirmed, following specific enquiry by the Company, that he or she has complied with the required standards set out in the Model Code throughout the Period.

COMPLIANCE WITH RULES 3.10(1) AND 3.10A OF THE LISTING RULES

Pursuant to Rule 3.10(1) of the Listing Rules, the Board must include at least three independent non-executive Directors and pursuant to Rule 3.10A of the Listing Rules, the Company must appoint independent non-executive Directors representing at least one-third of the Board.

At the annual general meeting of the Company held on June 1, 2020, Dr. Seek Ngee Huat retired as an independent non-executive Director and, as from such date, the Board had two (2) independent non-executive Directors and the number of independent non-executive Directors represented less than one-third of the members of the Board.

On August 18, 2020, the Company appointed Mr. Fang Yuan to be an independent non-executive Director with effect from August 19, 2020 and, as from such date, the Company will be in compliance with the requirements of Rules 3.10(1) and 3.10A of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at June 30, 2020, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code, are as follows:

Long positions in shares and underlying shares of the Company:

Name of Directors	Nature of interest	Number of Shares	Number of Underlying Shares pursuant to		Percentage of total issued shares of the Company ⁽¹⁾
			Share options	Award Shares	
Ma Ting Hung	Personal interest	8,450,000			37.99%
	Interest in controlled corporations ⁽²⁾	176,922,097	4,000,000		
Liu Sai Wang Stephen	Personal interest	300,000		900,000	21.69%
	Interest in controlled corporations ⁽³⁾	59,942,173	46,978,816		
Liu Sai Keung Thomas	Personal interest	150,000	2,100,000	450,000	2.91%
	Interest in controlled corporations ⁽⁴⁾	6,828,585	5,000,000		
Yip Ka Kay	Interest in controlled corporations ⁽⁵⁾	13,574,502			2.72%
Wu Chak Man	Personal interest	2,730,289			0.55%

Notes:

- (1) The calculation is based on (i) the aggregate number of shares of the Company ("Shares") and, if any, underlying Shares pursuant to share options and award shares and (ii) the total number of 498,494,389 Shares in issue as at June 30, 2020.
- (2) Ma Ting Hung controls 100% of, and is a director of, each of Skyworld-Best Limited, Wealthy Surplus Limited and Glory Global International Limited, each of which has a beneficial interest in 84,719,154 Shares, 46,607,010 Shares and 45,595,933 Shares, respectively. Skyworld-Best Limited also has a beneficial interest in share options to subscribe for 4,000,000 Shares.
- (3) Liu Sai Wang Stephen controls 50% of, and is a director of, Magic Mount Limited, which has a beneficial interest in 27,093,858 Shares, and controls 100% of, and is a director of, each of Perfect Castle Development Limited and Union Fair International Limited, each of which has a beneficial interest in 27,523,810 Shares and 5,324,505 Shares, respectively. Perfect Castle Development Limited also has a beneficial interest in share options to subscribe for 46,978,816 Shares.
- (4) Liu Sai Keung Thomas controls 100% of, and is a director of, International Treasure Limited which has a beneficial interest in 6,828,585 Shares and share options to subscribe for 5,000,000 Shares.
- (5) Yip Ka Kay controls 50% of, and is a director of, CPED (KY) Limited, which has a beneficial interest in 4,015,628 Shares. Yip Ka Kay is also the sole director and the sole shareholder of NM Strategic Partners, LLC which manages NM Strategic Focus Fund L.P., which has a beneficial interest in 9,558,874 Shares.

Save as disclosed herein and so far as is known to the Directors, as at June 30, 2020, none of the Directors or the chief executive of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE INCENTIVE SCHEMES

Pre-IPO Share Option Schemes

The Company has adopted three pre-IPO share option schemes which were approved by the Board on March 1, 2016 (the “**2016 ESOP**”), March 1, 2018 (the “**2017 ESOP I**”) and March 1, 2018 (the “**2017 ESOP II**”, together with the 2016 ESOP and the 2017 ESOP I, the “**Pre-IPO Share Option Schemes**”), respectively. The Pre-IPO Share Option Schemes are not subject to the provisions of Chapter 17 of the Listing Rules.

The purpose of the Pre-IPO Share Option Schemes is to advance the interests of the Company and its shareholders by providing key employees, directors and consultants of the Group a performance incentive for the purpose of continuing and improving their services with the Group and a motivational force to improve the operating efficiency of the Group. The Pre-IPO Share Option Schemes also help to enhance the key employees, directors and consultants’ contribution to profits of the Group by encouraging capital accumulation and share ownership and direct participation in the success of the Group and are an effective tool to retain such key employees.

The following table discloses in respect of the outstanding share options granted under the Pre-IPO Share Option Schemes:

- (a) the name of the Director, in the case of outstanding share options granted to a Director or a company or companies controlled by such Director and the category of persons, in the case of outstanding share options granted to persons who are not Directors or companies controlled by a Director;
- (b) in the case of a Director, the number of share options granted to such Director or companies controlled by such Director on an individual basis and in the case of categories of other persons, the number of share options granted on an aggregate basis;
- (c) the number of share options exercised during the Period;
- (d) the date of grant of the share options;
- (e) the exercise period (after taking into account any vesting period) of the share options;
- (f) the exercise price of the share options; and
- (g) the approximate percentage that the Shares issuable under the share options represent of the total Shares in issue as at June 30, 2020.

Other Information

Name or category of participant	Options outstanding as at June 30, 2020	Exercised during the Period	Lapsed during the Period	Date of grant	Exercise period	Exercise price per Share (US\$)	Approximate percentage of issued Shares ⁽¹⁾
2016 ESOP							
Director							
Liu Sai Keung Thomas ⁽²⁾	2,366,430	Nil	Nil	01-03-2016	31-12-2016 to 30-11-2021	0.8735	1.42%
	2,366,430	Nil	Nil	01-03-2016	31-12-2017 to 30-11-2021	0.8735	
	2,367,140	Nil	Nil	01-03-2016	31-12-2018 to 30-11-2021	0.8735	
Other employees							
In aggregate	171,850	Nil	Nil	20-11-2017	20-11-2018 to 19-11-2022	0.8735	0.10%
	171,850	Nil	Nil	20-11-2017	20-11-2019 to 19-11-2022	0.8735	
	171,902	Nil	Nil	20-11-2017	20-11-2020 to 19-11-2022	0.8735	
Other employees							
In aggregate	0	Nil	116,655	20-09-2016	20-09-2017 to 19-09-2021	0.8735	0.00%
	0	Nil	116,655	20-09-2016	20-09-2018 to 19-09-2021	0.8735	
	0	Nil	116,690	20-09-2016	20-09-2019 to 19-09-2021	0.8735	
Other employees							
In aggregate	2,518,708	Nil	272,433	01-03-2016	31-12-2016 to 30-11-2021	0.8735	1.52%
	2,518,708	Nil	272,433	01-03-2016	31-12-2017 to 30-11-2021	0.8735	
	2,519,884	Nil	272,434	01-03-2016	31-12-2018 to 30-11-2021	0.8735	
Other employees							
In aggregate	156,650	Nil	Nil	17-10-2016	17-10-2017 to 16-10-2021	0.8735	0.10%
	166,650	Nil	Nil	17-10-2016	17-10-2018 to 16-10-2021	0.8735	
	166,700	Nil	Nil	17-10-2016	17-10-2019 to 16-10-2021	0.8735	
Other employees							
In aggregate	11,465	Nil	Nil	01-04-2016	01-04-2017 to 31-03-2021	0.8735	0.01%
	11,465	Nil	Nil	01-04-2016	01-04-2018 to 31-03-2021	0.8735	
	11,470	Nil	Nil	01-04-2016	01-04-2019 to 31-03-2021	0.8735	
2017 ESOP I							
Director							
Liu Sai Wang Stephen ⁽³⁾	8,954,665	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	5.39%
	8,954,665	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	8,954,667	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
Other employees							
In aggregate	4,791,667	Nil	1,759,333	10-05-2018	09-05-2019 to 09-05-2023	1.6123	2.88%
	4,791,667	Nil	1,759,333	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	4,791,666	Nil	1,759,334	10-05-2018	09-05-2021 to 09-05-2023	1.6123	

Name or category of participant	Options outstanding as at June 30, 2020	Exercised during the Period	Lapsed during the Period	Date of grant	Exercise period	Exercise price per Share (US\$)	Approximate percentage of issued Shares ⁽¹⁾
2017 ESOP II							
Director							
Liu Sai Wang Stephen ⁽³⁾	6,704,939	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	4.04%
	6,704,939	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	6,704,941	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
Ma Ting Hung ⁽⁴⁾	1,333,333	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	0.80%
	1,333,333	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	1,333,334	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
Other employees							
In aggregate	666,666	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	0.40%
	666,666	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	666,668	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	

Notes:

- (1) The percentage calculations are based on the total number of 498,494,389 Shares in issue as at June 30, 2020.
- (2) Liu Sai Keung Thomas has a personal interest in 2,100,000 share options and a corporate interest in 5,000,000 share options, granted under the 2016 ESOP. The corporate interest is held through International Treasure Limited, a company that is 100% controlled by Liu Sai Keung Thomas.
- (3) Liu Sai Wang Stephen has a corporate interest in an aggregate of 46,978,816 share options granted under the 2017 ESOP I and the 2017 ESOP II. The corporate interest is held through Perfect Castle Development Limited, a company that is 100% controlled by Liu Sai Wang Stephen.
- (4) Ma Ting Hung has a corporate interest in 4,000,000 share options granted under the 2017 ESOP II. The corporate interest is held through Skyworld-Best Limited, a company that is 100% controlled by Ma Ting Hung.

The share options granted under the 2017 ESOP II were divided into three tranches, being series A, series B and series C. The series B and series C share options granted pursuant to the 2017 ESOP II lapsed upon completion of the listing of the Shares on the Stock Exchange (the “**Listing**”) on June 21, 2018.

No share options have been granted under the Pre-IPO Share Option Schemes after the Listing and, save as disclosed above, no share option granted under the Pre-IPO Share Option Schemes was exercised, lapsed or cancelled during the Period. The Company will not grant any further share options under the Pre-IPO Share Option Schemes.



Other Information

Post-IPO Share Option Scheme

The Company adopted a post-IPO share option scheme on May 10, 2018 (the “**Post-IPO Share Option Scheme**”). The Post-IPO Share Option Scheme is subject to the provisions of Chapter 17 of the Listing Rules.

The purpose of the Post-IPO Share Option Scheme is to provide eligible persons, including employees, directors, officers, consultants, advisors, distributors, contractors, customers, suppliers, agents, business partners and service providers, with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and Shareholders as a whole. The Post-IPO Share Option Scheme provides the Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to eligible persons.

No share options have been granted or agreed to be granted under the Post-IPO Share Option Scheme as at June 30, 2020.

Share Award Scheme

The Company adopted the VCREDIT No. 1 Share Award Scheme on January 11, 2019 (the “**Share Award Scheme**”), pursuant to which the Company may grant share awards (“**Awards**”) in respect of up to 24,974,369 Shares (“**Award Shares**”). The Share Award Scheme is a discretionary scheme of the Company and does not constitute a share option scheme under and is not subject to the provisions of Chapter 17 of the Listing Rules. The purpose of the Share Award Scheme is to align the interests of eligible persons with those of the Group and to help encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. Further details of the Share Award Scheme are set out in the announcement of the Company dated January 11, 2019.

During the Period, no Award Shares were awarded to eligible persons pursuant to the Share Award Scheme. As at June 30, 2020, a total of 6,530,360 Award Shares have been awarded to eligible persons pursuant to the Share Award Scheme, and out of which 1,800,000 Award Shares were awarded to connected persons.

As at June 30, 2020, the trustees of the trusts established to administer the Share Award Scheme held a total of 4,973,670 Shares which can be applied to satisfy Awards granted under the Share Award Scheme to connected persons and non-connected persons.

The movements in the Award Shares under the Share Award Scheme during the Period are as follows:

Grantees	Date of Award	Number of Award Shares				As at June 30, 2020
		As at January 1, 2020	Granted during the Period	Vested during the Period	Forfeited during the Period	
Liu Sai Wang Stephen	26-03-2019	1,200,000*	Nil	300,000	Nil	900,000
Liu Sai Keung Thomas	26-03-2019	600,000*	Nil	150,000	Nil	450,000
Non-connected Persons	26-03-2019	4,645,360*	Nil	1,106,690	443,600	3,095,070
Non-connected Person	26-03-2019	85,000#	Nil	Nil	Nil	85,000

* The Award Shares shall vest in four tranches as follows:

- (a) one-quarter, on March 25, 2020;
- (b) one-quarter, on March 25, 2021;
- (c) one-quarter, on March 25, 2022; and
- (d) one-quarter, on March 25, 2023.

The vesting of the Award Shares was amended with effect from 1 August 2019 as follows:

- (a) 56,695 Shares, on March 25, 2021; and
- (b) 28,305 Shares, on March 25, 2022.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at June 30, 2020, the interests and short positions of the substantial Shareholders and other persons in Shares or underlying Shares, as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long positions in Shares and underlying Shares:

Name of Shareholder	Nature of interest	Number of Shares	Number of underlying Shares pursuant to share options/ Award Shares*	Percentage of total issued Shares ⁽¹⁾
Ma Ting Hung	Personal interest	8,450,000		37.99%
	Interest in a controlled corporation ⁽²⁾	176,922,097	4,000,000	
Skyworld-Best Limited	Beneficial interest ⁽²⁾	84,719,154	4,000,000	17.80%
Wealthy Surplus Limited	Beneficial interest ⁽²⁾	46,607,010		9.35%
Glory Global International Limited	Beneficial interest ⁽²⁾	45,595,933		9.15%
Liu Sai Wang Stephen	Personal interest	300,000	900,000*	21.69%
	Interest in a controlled corporation ⁽³⁾	59,942,173	46,978,816	
Kwok Lim Ying	Interest in a controlled corporation ⁽⁴⁾	27,093,858		5.44%
Perfect Castle Development Limited	Beneficial interest ⁽³⁾	27,523,810	46,978,816	14.95%
Magic Mount Limited	Beneficial interest ^{(3) (4)}	27,093,858		5.44%
Kwok Peter Viem	Interest in a controlled corporation ⁽⁵⁾	50,740,770		10.18%
Kwok Chang Shiu Feng	Interest in a controlled corporation ⁽⁵⁾	50,740,770		10.18%
High Loyal Management Limited	Beneficial interest	50,740,770		10.18%
EastWest Trust Company Limited	Interest in a controlled corporation ⁽⁶⁾	41,339,885		8.29%
Cavamont Holdings Limited	Interest in a controlled corporation ⁽⁷⁾	41,339,885		8.29%
Cavamont Investments Limited	Interest in a controlled corporation ⁽⁸⁾	41,339,885		8.29%
Cavenham Private Equity and Directs	Interest in controlled corporations ⁽⁹⁾	41,339,885		8.29%
CPED Asia (No.1) Limited	Beneficial interest ⁽⁹⁾	37,324,257		7.49%
David Bonderman	Interest in a controlled corporation ⁽¹⁰⁾	31,011,598		6.22%
James George Coulter	Interest in a controlled corporation ⁽¹⁰⁾	31,011,598		6.22%
TPG Group Holdings (SBS) Advisors, Inc.	Interest in a controlled corporation ⁽¹¹⁾	31,011,598		6.22%
TPG Group Holdings (SBS) Advisors, LLC	Interest in a controlled corporation ⁽¹²⁾	31,011,598		6.22%
TPG Group Holdings (SBS), L.P.	Interest in a controlled corporation ⁽¹³⁾	31,011,598		6.22%
TPG Holding III-A, Inc.	Interest in a controlled corporation ⁽¹⁴⁾	31,011,598		6.22%
TPG Holdings III-A, L.P.	Interest in a controlled corporation ⁽¹⁵⁾	31,011,598		6.22%
TPG Holdings III, LP	Interest in a controlled corporation ⁽¹⁶⁾	31,011,598		6.22%
TPG Growth III SF AIV GenPar Advisors, Inc.	Interest in a controlled corporation ⁽¹⁷⁾	31,011,598		6.22%
TPG Growth III SF AIV GenPar, LP	Interest in a controlled corporation ⁽¹⁸⁾	31,011,598		6.22%
TPG Growth III SF Finance, Limited Partnership	Interest in a controlled corporation ⁽¹⁹⁾	31,011,598		6.22%
TPG Growth III SF Pte. Ltd	Beneficial interest	31,011,598		6.22%
Chan Kin	Interest in a controlled corporation ⁽²⁰⁾	59,942,173		12.02%
Argyle Street Management Holdings Limited	Interest in controlled corporations ⁽²¹⁾	59,942,173		12.02%
Argyle Street Management Limited	Interest in controlled corporations ⁽²²⁾	59,942,173		12.02%
ASM Connaught House General Partner II Limited	Interest in a controlled corporation ⁽²³⁾	59,942,173		12.02%

Name of Shareholder	Nature of interest	Number of Shares	Number of underlying Shares pursuant to share options/ Award Shares*	Percentage of total issued Shares ⁽¹⁾
ASM Connaught House Fund II LP	Interest in a controlled corporation ⁽²³⁾	59,942,173		12.02%
ASM Connaught House General Partner Limited	Interest in a controlled corporation ⁽²⁴⁾	59,942,173		12.02%
ASM Connaught House Fund LP	Interest in a controlled corporation ⁽²⁴⁾	59,942,173		12.02%
Yinchuan Street Limited	Security interest in shares ⁽²⁵⁾	59,942,173		12.02%

Notes:

- (1) The calculation is based on (i) the aggregate number of Shares and, if any, underlying Shares pursuant to share options and Award Shares, and (ii) the total number of 498,494,389 Shares in issue as at June 30, 2020.
- (2) Ma Ting Hung controls 100% of each of Skyworld-Best Limited, Wealthy Surplus Limited and Glory Global International Limited.
- (3) Liu Sai Wang Stephen controls 100% of Perfect Castle Development Limited and Union Fair International Limited, which has a beneficial interest in 5,324,505 Shares. Liu Sai Wang Stephen also controls 50% of Magic Mount Limited.
- (4) Kwok Lim Ying controls 50% of Magic Mount Limited.
- (5) Kwok Peter Viem and Kwok Chang Shiu Feng each controls 50% of High Loyal Management Limited.
- (6) EastWest Trust Company Limited controls 64.17% of Cavamont Holdings Limited.
- (7) Cavamont Holdings Limited controls 100% of Cavamont Investments Limited.
- (8) Cavamont Investments Limited controls 100% of Cavenham Private Equity and Directs.
- (9) Cavenham Private Equity and Directs controls 100% of CPED Asia (No.1) Limited and 50% of CPED (KY) Limited, which has a beneficial interest in 4,015,628 Shares.
- (10) David Bonderman and James George Coulter each controls 50% of TPG Group Holdings (SBS) Advisors, Inc.
- (11) TPG Group Holdings (SBS) Advisors, Inc. controls 100% of TPG Group Holdings (SBS) Advisors, LLC.
- (12) TPG Group Holdings (SBS) Advisors, LLC controls 100% of TPG Group Holdings (SBS), L.P.
- (13) TPG Group Holdings (SBS), L.P. controls 100% of TPG Holdings III-A, Inc.
- (14) TPG Holdings III-A, Inc. controls 100% of TPG Holdings III-A, L.P.
- (15) TPG Holdings III-A, L.P. controls 100% of TPG Holdings III, LP.
- (16) TPG Holdings III, LP controls 100% of TPG Growth III SF AIV GenPar Advisors, Inc.
- (17) TPG Growth III SF AIV GenPar Advisors, Inc. controls 100% of TPG Growth III SF AIV GenPar, LP.
- (18) TPG Growth III SF AIV GenPar, LP controls 100% of TPG Growth III SF Finance, Limited Partnership.
- (19) TPG Growth III SF Finance, Limited Partnership controls 100% of TPG Growth III SF Pte. Ltd.
- (20) Chan Kin owns 50.43% of Argyle Street Management Holdings Limited.
- (21) Argyle Street Management Holdings Limited owns 100% of each of Argyle Street Management Limited and ASM Connaught House General Partner Limited, and 70% of ASM Connaught House General Partner II Limited.



Other Information

- (22) Argyle Street Management Limited controls each of ASM Connaught House General Partner Limited, ASM Connaught House Fund LP, ASM Connaught House General Partner II Limited, ASM Connaught House Fund II LP and ASM Connaught House (Master) Fund II LP by virtue of its position as an investment manager.
- (23) ASM Connaught House General Partner II Limited is the general partner of ASM Connaught House Fund II LP and ASM Connaught House (Master) Fund II LP, and owns 58.06% of ASM Connaught House Fund II LP.
- (24) ASM Connaught House General Partner Limited is general partner of ASM Connaught House Fund LP.
- (25) Yinchuan Street Limited is owned by Caroline Hill Limited as to 66% and Albany Road Limited as to 34%. Caroline Hill Limited is wholly-owned by ASM Connaught House (Master) Fund II LP, which is wholly-owned by ASM Connaught House Fund II LP. Albany Road Limited is wholly owned by ASM Connaught House Fund LP.

Save as disclosed herein and in the section headed “Directors’ and Chief Executive’s Interests in Shares and Underlying Shares” above, and so far as is known to the Directors, as at June 30, 2020, no person had an interest or a short position in the Shares or underlying Shares required to be recorded in the register to be kept under section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Period, the Company repurchased a total of 709,400 Shares on the Stock Exchange for an aggregate consideration of HK\$2,871,832 (before expenses). The repurchases were effected pursuant to the repurchase mandates granted to the Directors by the Shareholders on June 28, 2019 and June 1, 2020, with a view to benefiting the Shareholders as a whole to enhance the net asset value per Share.

Particulars of the Shares repurchased are as follows:

Date	Number of Shares Repurchased	Lowest Price Paid per Share (HK\$)	Highest Price Paid per Share (HK\$)	Aggregate Consideration (Before Expenses) (HK\$)
May 2020	232,200	3.78	4.29	933,780
June 2020	477,200	3.96	4.32	1,938,052

All of the repurchased Shares have been cancelled. The issued share capital of the Company was accordingly reduced by the par value of the repurchased Shares so cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the Period.

REVIEW OF ACCOUNTS

The audit committee has reviewed this interim report with senior management of the Company.

Report on Review of Interim Financial Information

To the Board of Directors of VCREDIT Holdings Limited

(registered by way of continuation in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 31 to 65, which comprises the interim condensed consolidated statement of financial position of VCREDIT Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) as at June 30, 2020 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other 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 International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information 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 International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information 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 International 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 interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 18, 2020

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2020

	Notes	Six months ended June 30,	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Continuing operations			
Interest type income	6	1,310,586	1,152,633
Less: interest expenses	6	(446,484)	(395,939)
Net interest type income	6	864,102	756,694
Loan facilitation service fees	7	238,173	572,865
Other income	8	101,551	530,660
Total income		1,203,826	1,860,219
Origination and servicing expenses	9	(370,340)	(301,884)
Sales and marketing expenses	9	(8,781)	(14,699)
General and administrative expenses	9	(153,200)	(281,016)
Research and development expenses	9	(36,900)	(38,922)
Credit impairment losses	10	(165,008)	(124,161)
Fair value change of loans to customers	5.2.1	(1,800,107)	(1,040,106)
Other losses, net	11	(8,553)	(2,068)
Operating (loss)/profit		(1,339,063)	57,363
Share of net (loss)/profit of associates accounted for using the equity method		(11,235)	992
(Loss)/Profit before income tax		(1,350,298)	58,355
Income tax expense	12	269,070	(52,181)
(Loss)/Profit for the period attributable to:			
Owners of the Company		(1,081,240)	6,174
Non-controlling interests		12	—
		(1,081,228)	6,174

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2020

		Six months ended June 30,	
	<i>Notes</i>	2020	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Other comprehensive income/(loss)			
<i>Items that may be reclassified to profit or loss</i>			
Exchange difference on translation of financial statements		4,352	(571)
Total comprehensive (loss)/income for the period, net of tax		(1,076,876)	5,603
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(1,076,888)	5,603
Non-controlling interests		12	—
		(1,076,876)	5,603
Basic (loss)/earnings per share (RMB Yuan)	13	(2.19)	0.01
Diluted (loss)/earnings per share (RMB Yuan)	13	(2.19)	0.01

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Financial Position

As at June 30, 2020

	Notes	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Assets			
Cash and cash equivalents	14(a)	1,813,986	2,169,522
Restricted cash	14(b)	248,248	264,584
Loans to customers at fair value through profit or loss	15	5,338,308	9,457,673
Contract assets	16	221,727	523,022
Guarantee receivables	17	616,392	621,248
Financial assets at fair value through profit or loss	18	20,282	280
Investments accounted for using the equity method	19	20,462	37,430
Deferred income tax assets	20	740,352	468,256
Right-of-use assets		58,818	25,824
Intangible assets		24,625	22,175
Property and equipment		41,433	51,196
Other assets	21	473,795	648,147
Total assets		9,618,428	14,289,357
Liabilities			
Borrowings	22	5,525,792	9,236,329
Senior notes	23	695,475	678,829
Lease liabilities		59,504	25,197
Guarantee liabilities	17	688,393	723,617
Tax payable		255,550	124,960
Deferred income tax liabilities	20	20,593	86,101
Other liabilities	24	313,185	314,046
Total liabilities		7,558,492	11,189,079
Equity			
Share capital	25	40,857	40,913
Share premium	25	5,578,217	5,581,016
Treasury shares	26	(38,999)	(51,774)
Reserves		713,879	682,913
Accumulated losses		(4,237,030)	(3,155,790)
Non-controlling interests		3,012	3,000
Total equity		2,059,936	3,100,278
Total liabilities and equity		9,618,428	14,289,357

The above interim condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

The interim condensed consolidated financial information and the accompanying notes starting from page 31 to page 65 are signed by:

Ma Ting Hung
Director

Liu Sai Wang Stephen
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

	Attributable to owners of the Company							Total RMB'000
	Share capital RMB'000 Note 25	Share premium RMB'000 Note 25	Treasury shares RMB'000 Note 26	Reserves			Non- controlling interests RMB'000	
				Share option reserves RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000		
(Unaudited)								
Balance at January 1, 2020	<u>40,913</u>	<u>5,581,016</u>	<u>(51,774)</u>	<u>607,888</u>	<u>75,025</u>	<u>(3,155,790)</u>	<u>3,000</u>	<u>3,100,278</u>
Loss for the period	—	—	—	—	—	(1,081,240)	12	(1,081,228)
Exchange difference on translation of financial statements	—	—	—	—	4,352	—	—	4,352
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,352</u>	<u>(1,081,240)</u>	<u>12</u>	<u>(1,076,876)</u>
Transactions with owners in their capacity as owners								
Shares repurchased and cancelled	(56)	(2,590)	—	—	—	—	—	(2,646)
Share-based payment	—	—	—	39,180	—	—	—	39,180
Vesting of share awards	—	(209)	12,775	(12,566)	—	—	—	—
Total transactions with owners in their capacity as owners	<u>(56)</u>	<u>(2,799)</u>	<u>12,775</u>	<u>26,614</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>36,534</u>
Balance at June 30, 2020	<u>40,857</u>	<u>5,578,217</u>	<u>(38,999)</u>	<u>634,502</u>	<u>79,377</u>	<u>(4,237,030)</u>	<u>3,012</u>	<u>2,059,936</u>

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

	Attributable to owners of the Company							Total RMB'000
	Share capital RMB'000 Note 25	Share premium RMB'000 Note 25	Treasury shares RMB'000 Note 26	Reserves		Accumulated losses RMB'000		
				Share option reserves RMB'000	Translation reserve RMB'000			
(Unaudited)								
Balance at December 31, 2018	40,938	5,581,926	—	304,945	75,510	(3,218,592)	2,784,727	
Change on initial application of IFRS 16	—	—	—	—	—	(1,988)	(1,988)	
Restated balance at January 1, 2019	<u>40,938</u>	<u>5,581,926</u>	<u>—</u>	<u>304,945</u>	<u>75,510</u>	<u>(3,220,580)</u>	<u>2,782,739</u>	
Profit for the period	—	—	—	—	—	6,174	6,174	
Exchange difference on translation of financial statements	—	—	—	—	(571)	—	(571)	
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(571)</u>	<u>6,174</u>	<u>5,603</u>	
Transactions with owners in their capacity as owners								
Shares repurchased for share award scheme	—	—	(46,476)	—	—	—	(46,476)	
Share-based payment	—	—	—	186,606	—	—	186,606	
Total transactions with owners in their capacity as owners	<u>—</u>	<u>—</u>	<u>(46,476)</u>	<u>186,606</u>	<u>—</u>	<u>—</u>	<u>140,130</u>	
Balance at June 30, 2019	<u>40,938</u>	<u>5,581,926</u>	<u>(46,476)</u>	<u>491,551</u>	<u>74,939</u>	<u>(3,214,406)</u>	<u>2,928,472</u>	

The above interim condensed consolidated statement of change in equity should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

	Notes	Six months ended June 30,	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Operating activities			
Cash generated from operating activities		3,826,352	1,869,898
Income tax paid		(8,276)	(77,926)
Net cash inflow from operating activities		3,818,076	1,791,972
Investing activities			
Proceeds from disposal of investments accounted for using the equity method		6,575	—
Payments for property and equipment		(5,610)	(4,092)
Payments for intangible assets		(4,131)	(4,200)
Payments for construction in progress		(5)	(1,574)
Payments for financial assets at fair value through profit or loss		—	(265,000)
Proceeds from financial assets at fair value through profit or loss		—	185,111
Net cash outflow from investing activities		(3,171)	(89,755)
Financing activities			
Repayment to trust plan holders, net		(3,642,576)	(822,629)
Repayment of borrowings, net		(41,135)	(235,615)
Proceeds from issuance of senior notes		—	660,602
Interest expenses paid		(466,999)	(398,461)
Payments for shares repurchased		(2,646)	(46,476)
Payments for lease liabilities		(16,898)	(19,914)
Net cash outflow from financing activities		(4,170,254)	(862,493)
Net (decrease)/increase in cash and cash equivalents		(355,349)	839,724
Cash and cash equivalents at the beginning of the period	14(a)	2,169,524	1,050,112
Effects of exchange rate changes on cash and cash equivalents		(121)	(14)
Cash and cash equivalents at the end of the period	14(a)	1,814,054	1,889,822

The above interim condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.



Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

1 GENERAL INFORMATION

VCREDIT Holdings Limited (the “**Company**”) was incorporated in the British Virgin Islands (the “**BVI**”) on July 24, 2007 as an exempted company with limited liability under the laws of the BVI.

Pursuant to a shareholders’ resolution dated February 6, 2018, the Company re-domiciled to the Cayman Islands by way of continuation as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended or supplemented. The re-domiciliation was completed on February 26, 2018. The current address of the Company’s registered office is at 2nd Floor, The Grand Pavilion Commercial Center, 802 West Bay Road, P.O. Box 10338 Grand Cayman KY1-1003, Cayman Islands.

The Company is an investment holding company. The Company together with its subsidiaries (the “**Group**”) is a technology-driven consumer financial service provider in the People’s Republic of China (“**China**”, or the “**PRC**”). The Group offers tailored consumer finance products to prime and near-prime borrowers who are underserved by traditional financial institutions. The Group also offers consumer finance products by facilitating transactions between borrowers and financial institutions.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since June 21, 2018 (the “**Listing**”) by way of its initial public offering. As at June 30, 2020, the number of ordinary shares of the Company in issue was 498,494,389, with a par value of HK\$0.10 per share.

The interim condensed consolidated financial information is presented in Renminbi (“**RMB**”), unless otherwise stated.

The interim condensed consolidated financial information has been approved and authorised for issue by the board of directors of the Company on August 18, 2020.

2 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended June 30, 2020 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim financial reporting” issued by the International Accounting Standards Board. The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, the interim condensed consolidated financial information is to be read in conjunction with the annual report for the year ended December 31, 2019, which has been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”), and any public announcements made by the Group during the six months ended June 30, 2020.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2019, except for the adoption of new or amended standards and interpretations that became applicable for annual reporting periods commencing on or after January 1, 2020.

The following new standards, amendments and interpretation of IFRSs have been adopted by the Group for the first time for the financial year beginning January 1, 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRSs	Revised Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The adoption of these revised IFRSs was currently irrelevant or had no significant impact on the interim condensed consolidated financial information. The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the interim financial information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2019.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019.

There have been no changes in the risk management policies since December 31, 2019. However, the coronavirus (COVID-19) pandemic has developed rapidly in 2020, with a significant number of cases globally. Measures taken to contain the COVID-19 pandemic have significantly affected economic activity, which in turn has implications for financial reporting.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.1 Financial risk factors (continued)

There have been no significant changes in estimation techniques or significant assumptions made during the current reporting period. While the uncertainties arising from the COVID-19 pandemic are substantial and circumstances are certain to change, the COVID-19 pandemic does have some negative impacts when determining the severity and likelihood of downside economic scenarios that will be used to estimate under IFRS 9 in 2020, especially on the measurement of the Group's expected credit losses ("**ECL**").

Measurement of ECL

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is consistent with the models applied in the consolidated financial statements for the year ended December 31, 2019.

During the reporting period, the most significant assumptions used are Gross Domestic Product ("**GDP**") and Consumer Price Index ("**CPI**"), which are proved to be the most relevant variables by back testing. Due to the COVID-19 pandemic's influence, both variables incorporated were decreased markedly.

Key economic variable	Scenario	Six months ended	Year ended
		June 30, 2020	December 31, 2019
CPI	Base	2.52%–4.00%	3.09%–3.44%
	Upside	3.26%–4.73%	3.62%–4.07%
	Downside	1.79%–3.26%	2.11%–2.57%
GDP	Base	1.64%–3.10%	5.77%–6.14%
	Upside	2.37%–3.82%	5.94%–6.44%
	Downside	0.91%–2.37%	5.55%–6.04%

The Group uses economic variable assumptions when determining expected CPI and GDP. The weightings assigned to each economic scenario at June 30, 2020 were as follows, which were the same as at December 31, 2019:

	Base	Upside	Downside
CPI	80%	10%	10%
GDP	80%	10%	10%

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.1 Financial risk factors (continued)

Sensitivity analysis

Set out below are the changes to the ECL as at June 30, 2020 that would result by varying CPI and GDP by 0.5 standard deviation (“ σ ”), respectively, in each of the base, upside and downside scenarios:

		-0.5 σ RMB'000	GDP No change RMB'000	+0.5 σ RMB'000
CPI	-0.5 σ	84,207	39,866	—
	No change	39,866	—	(32,392)
	+0.5 σ	—	(32,392)	(61,577)

The ECL allowance is sensitive to the weightings assigned to each economic scenario.

For CPI and GDP, assuming a 10% increase in the weight of the upside scenario and a 10% reduction in the weight of the base scenario, the Group's ECL as at June 30, 2020 is reduced by RMB11,384,000; assuming a 10% increase in the weight of the downside scenario and a 10% reduction in the weight of the base scenario, the Group's ECL is increased by RMB29,780,000.

5.2 Fair value measurement of financial instruments

5.2.1 Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value as at June 30, 2020 and December 31, 2019, respectively, on a recurring basis:

Valuation techniques and key input		As at June 30, 2020			
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Unaudited)					
Assets					
Loans to customers at fair value through profit or loss	Discounted cash flow method ⁽ⁱ⁾	—	—	5,338,308	5,338,308
Financial assets at fair value through profit or loss					
— Unlisted equity investment	The latest round of financing	—	—	20,000	20,000
— Money market funds	Quoted market price	282	—	—	282
		282	—	5,358,308	5,358,590

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.2 Fair value measurement of financial instruments (continued)

5.2.1 Fair value hierarchy (continued)

		As at December 31, 2019			
Valuation techniques and key input		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Audited)					
Assets					
Loans to customers at fair value through profit or loss	Discounted cash flow method ⁽ⁱ⁾	—	—	9,457,673	9,457,673
Financial assets at fair value through profit or loss					
— Money market funds	Quoted market price	280	—	—	280
		<u>280</u>	<u>—</u>	<u>9,457,673</u>	<u>9,457,953</u>

(i) Future cash flows are estimated based on key assumptions including growth rate, weighted average cost of capital.

The following table presents the changes in level 3 asset instruments for the six months ended June 30, 2019 and 2020, respectively:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Opening balance	9,457,673	8,863,246
Additions	6,449,914	5,275,292
Disposals	(8,749,172)	(5,895,123)
Gains or losses recognized in profit or loss	(1,800,107)	(1,040,106)
Ending balance	<u>5,358,308</u>	<u>7,203,309</u>

There were no transfers between the levels of the fair value hierarchy in the six months ended June 30, 2020. There were no changes made to any of the valuation techniques applied as at December 31, 2019.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at June 30, 2020.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.2 Fair value measurement of financial instruments (continued)

5.2.1 Fair value hierarchy (continued)

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

5.2.2 Fair value measurements using significant unobservable inputs

The Group has a team that performs the valuations of financial assets required for financial reporting purposes, including Level 3 fair values. The team manages the valuation exercise of the investments on a case by case basis. The team would use valuation techniques to determine the fair value of the Group's level 3 instruments once every month. External valuation experts will be involved when necessary.

As at June 30, 2020, the level 3 instruments were mainly loans to customers at fair value through profit or loss. As the loans to customers are not traded in an active market, its fair value has been determined using discounted cash flows. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimate of discount rate, and other exposure etc. Discount rate was estimated by weighted average cost of capital as at each reporting date. The management estimated the risk-free interest rate based on the yield of China Government Bonds with a maturity life equal to the period from the respective reporting date to expected cash flow date.

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For the six months ended June 30, 2020

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.2 Fair value measurement of financial instruments (continued)

5.2.2 Fair value measurements using significant unobservable inputs (continued)

The table below illustrates the impact on loss before income tax for the six months ended June 30, 2020, if the discount rate used had increased/decreased by 100 basis points with all other variables held constant.

	Expected changes in (loss)/profit before income tax	
	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
+100 basis points	(11,914)	(29,605)
-100 basis points	12,070	33,567

5.2.3 Fair values of other financial instruments (unrecognised)

The Group also has a number of financial instruments which are not measured at fair value in the interim condensed consolidated statement of financial position such as guarantee receivables, other receivables, senior notes, borrowings and other payables. For these instruments, the fair values are not materially different to their carrying amounts, since the interest rate is close to current market rates, or the instruments are short-term in nature.

6 NET INTEREST TYPE INCOME

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest type income		
Loans to customers at fair value through profit or loss	1,310,586	1,152,633
Less: interest expenses		
Payable to trust plan holders	(368,018)	(342,007)
Senior notes	(45,226)	—
Borrowings from corporations	(32,104)	(44,304)
Borrowings from individuals	—	(6,639)
Secured borrowings	—	(13)
Others	(1,136)	(2,976)
	(446,484)	(395,939)
Net interest type income	864,102	756,694

7 LOAN FACILITATION SERVICE FEES

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Upfront loan facilitation service fees	159,983	534,996
Post loan facilitation service fees	78,190	37,869
	238,173	572,865

Note: The unsatisfied performance obligations as at June 30, 2020 is RMB33.7 million. Management expects that 97.17% of the transaction price allocated to the unsatisfied contracts as at June 30, 2020 will be recognized as revenue within the next 12 months (As at June 30, 2019: the unsatisfied performance obligations is RMB85.1 million, and management expects that 95.10% of the transaction price allocated to the unsatisfied contracts will be recognized as revenue within the next 12 months).

8 OTHER INCOME

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Membership fees and referral fees ⁽ⁱ⁾	301,047	500,525
Penalty and service charges	183,419	125,094
Government grants	34,975	—
Technology and professional service fees	—	16,212
Losses from guarantee	(421,526)	(116,192)
Others	3,636	5,021
	101,551	530,660

(i) Membership fees for the six months ended June 30, 2020 are RMB0.8 million (for the six months ended June 30, 2019: RMB56.1 million). Referral fees for the six months ended June 30, 2020 are RMB300.2 million (for the six months ended June 30, 2019: RMB444.4 million).

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

9 EXPENSES BY NATURE

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loan origination and servicing expenses	(316,551)	(252,972)
Employee benefit expenses	(132,766)	(291,579)
Professional service fees	(33,474)	(17,392)
Office expenses	(20,763)	(19,125)
Depreciation and amortization	(17,110)	(15,134)
Depreciation of right-of-use assets	(16,177)	(18,520)
Tax and surcharge	(15,350)	(8,881)
Branding expenses	(2,773)	(4,980)
Others	(14,257)	(7,938)
Total origination and servicing expenses, sales and marketing expenses, general and administrative expenses, and research and development expenses	(569,221)	(636,521)

10 CREDIT IMPAIRMENT LOSSES

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash and cash equivalents	(66)	—
Restricted cash	(102)	(33)
Contract assets	(53,853)	(64,392)
Guarantee receivables	(108,579)	(62,364)
Other assets	(2,408)	2,628
	(165,008)	(124,161)

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

11 OTHER LOSSES, NET

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance cost, net ⁽ⁱ⁾	(8,555)	(2,553)
Gain from financial assets at fair value through profit or loss	2	485
	(8,553)	(2,068)

(i) **Finance cost, net**

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	10,494	5,554
Gain from disposal of investments accounted for using the equity method	468	—
Exchange losses	(10,216)	(88)
Bank charges	(7,717)	(4,011)
Interest expense on lease liabilities	(1,584)	(1,636)
Interest expense on senior notes	—	(2,372)
	(8,555)	(2,553)

12 INCOME TAX EXPENSE

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	(68,534)	(73,605)
Deferred income tax	337,604	21,424
	269,070	(52,181)

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

12 INCOME TAX EXPENSE (continued)

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss of the consolidated entities as follows:

	Six months ended June 30, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
(Loss)/Profit before income tax:	(1,350,298)	58,355
Tax calculated at PRC statutory income tax rate of 25%	337,575	(14,589)
Tax effects of:		
— Differential income tax rates applicable to subsidiaries ⁽ⁱ⁾	(58,603)	12,552
— Expenses not deductible for income tax purpose	(9,896)	(47,975)
Share-based compensation	(9,795)	(46,652)
Others	(101)	(1,323)
— No recognition of deferred tax assets on tax losses	(6)	(2,169)
Income tax expense	<u>269,070</u>	<u>(52,181)</u>

(i) The Group's main applicable taxes and tax rates are as follows:

British Virgin Islands

Enterprise incorporated in the BVI is not subject to tax on income or capital gains.

Cayman Islands

The Company re-domiciled from the BVI and continue into the Cayman Islands prior to the Listing. The Company is governed by the laws of the Cayman Islands after completion of the continuation. Accordingly the Company is not subject to income tax under the Cayman Companies Law.

China

The PRC Enterprise Income Tax Law (the "EIT Law") applies an income tax rate of 25% to all enterprises but grants preferential tax treatments to High and New Technology Enterprises ("HNTEs"). Under these preferential tax treatments, HNTEs can enjoy a preferential income tax rate of 15% for three years, but need to re-apply after the end of the three-year period. Vision Credit Financial Technology Company, an indirect wholly-owned subsidiary of the Company, qualified as an HNTE under the EIT Law on October 23, 2014. In November 2017, Vision Credit Financial Technology Company was further approved as an HNTE and will continue to enjoy the preferential income tax rate of 15% from 2018 to 2020. Therefore, Vision Credit Financial Technology Company was entitled to a preferential income tax rate of 15% for the six months ended June 30, 2020.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the Company's subsidiaries incorporated in Hong Kong are subject to 16.5% income tax on their taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax. Commencing from the year of assessment of 2018 and 2019, the first HKD2 million of profits earned by the Company's subsidiaries incorporated in Hong Kong will be taxed at half the current tax rate (i.e. 8.25%) while the remaining profits will continue to be taxed at the existing 16.5% tax rate.

Withholding Tax on Undistributed Profits

Under the EIT Law, dividends, interests, rent, royalties and gains on transfers of property payable by a foreign-invested enterprise in the PRC to its parent company who is a non-resident enterprise will be subject to withholding tax of 10%, unless such non-resident enterprise's jurisdiction of incorporation has a tax treaty with the PRC that provides for a reduced rate of withholding taxes. The withholding tax rate is 5% for the parent company incorporated in certain qualified jurisdictions if the parent company is the beneficial owner of the dividend and approved by the PRC tax authority to enjoy the preferential tax benefit.

The Group does not have any current plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on withholding tax was accrued as at the end of each reporting period.

13 (LOSS)/EARNINGS PER SHARE

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/earnings attributable to owners of the Company	(1,081,240)	6,174
Weighted average number of ordinary shares for calculation of the basic (loss)/earnings per share ('000)	493,425	496,977
Weighted average number of ordinary shares for calculation of the diluted (loss)/earnings per share ('000)	493,425	503,755
Basic (loss)/earnings per share (RMB yuan)	(2.19)	0.01
Diluted (loss)/earnings per share (RMB yuan)	(2.19)	0.01

- (a) Basic (loss)/earnings per share is calculated by dividing the (loss)/profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares of the Company outstanding during the period.
- (b) For the six months ended June 30, 2019 and 2020, respectively, the potential ordinary shares of the Company were share options and share awards granted by the Company. As the Group incurred loss for the six months ended June 30, 2020, the potential ordinary shares of the Company were not included in the calculation of diluted loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the six months ended June 30, 2020 was the same as basic loss per share.

For the six months ended June 30, 2019, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and share awards granted by the Company (collectively forming the denominator for computing diluted earnings per share). No adjustment is made to earnings (numerator).

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

14 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Cash at bank	1,609,687	1,130,115
Cash held through platform ⁽ⁱ⁾	204,367	1,039,409
Total cash and cash equivalents	1,814,054	2,169,524
Less: ECL allowance	(68)	(2)
	1,813,986	2,169,522

(i) Cash held through platform is the cash balance held by the Group in third party payment companies.

(b) Restricted cash

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Deposits	248,403	264,637
Less: ECL allowance	(155)	(53)
	248,248	264,584

Restricted cash is deposited in designated bank accounts that are constrained by the loan facilitation service contracts between the banks and the Group. According to these contracts, the Group cannot withdraw restricted cash without permission of the banks.

Notes to the Interim Condensed Consolidated Financial Information

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15 LOANS TO CUSTOMERS AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of loans is as follows:

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Unsecured	4,922,834	8,822,968
Secured	415,474	634,705
	5,338,308	9,457,673

Contractual maturities of loans to customers at fair value through profit and loss:

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Within 1 year (including 1 year)	4,690,972	8,028,905
1 to 2 years (including 2 years)	70,245	260,124
2 to 5 years (including 5 years)	577,091	1,168,644
	5,338,308	9,457,673

Remaining period at the reporting date to the contractual maturity date of loans to customers at fair value through profit and loss:

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Overdue	393,005	506,965
Within 1 year (including 1 year)	4,777,304	8,256,618
1 to 2 years (including 2 years)	38,031	363,427
2 to 5 years (including 5 years)	129,968	330,663
	5,338,308	9,457,673

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For the six months ended June 30, 2020

16 CONTRACT ASSETS

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Contract assets	311,525	655,815
Less: ECL allowance	(89,798)	(132,793)
	221,727	523,022

Movement of gross carrying amount

Contract assets

	Six months ended June 30, 2020			
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Opening balance at January 1, 2020	571,352	43,084	41,379	655,815
New financial assets originated	117,252	—	—	117,252
Transfer for the period:				
From stage 1 to stage 2	(17,153)	17,153	—	—
From stage 1 to stage 3	(72,924)	—	72,924	—
From stage 2 to stage 1	89	(89)	—	—
From stage 2 to stage 3	—	(42,321)	42,321	—
From stage 3 to stage 2	—	3	(3)	—
From stage 3 to stage 1	16	—	(16)	—
Asset derecognised (including final repayment)	(363,044)	(643)	(1,007)	(364,694)
Asset written off	—	—	(96,848)	(96,848)
Ending balance at June 30, 2020	235,588	17,187	58,750	311,525

16 CONTRACT ASSETS (continued)**Movement of gross carrying amount** (continued)

Contract assets	Six months ended June 30, 2019			
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Opening balance at January 1, 2019	162,776	5,528	5,735	174,039
New financial assets originated	505,635	—	—	505,635
Transfer for the period:				
<i>From stage 1 to stage 2</i>	(11,156)	11,156	—	—
<i>From stage 1 to stage 3</i>	(13,669)	—	13,669	—
<i>From stage 2 to stage 1</i>	12	(12)	—	—
<i>From stage 2 to stage 3</i>	—	(3,509)	3,509	—
<i>From stage 3 to stage 2</i>	—	2	(2)	—
Asset derecognised (including final repayment)	(67,061)	(1,998)	(307)	(69,366)
Asset written off	—	—	(9,258)	(9,258)
Ending balance at June 30, 2019	576,537	11,167	13,346	601,050

Movement of ECL allowance

ECL allowance	Six months ended June 30, 2020			
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Opening balance at January 1, 2020	(53,842)	(39,330)	(39,621)	(132,793)
New financial assets originated	(9,732)	—	—	(9,732)
Transfer for the period:				
<i>From stage 1 to stage 2</i>	1,424	(15,726)	—	(14,302)
<i>From stage 1 to stage 3</i>	6,053	—	(69,923)	(63,870)
<i>From stage 2 to stage 1</i>	(7)	82	—	75
<i>From stage 2 to stage 3</i>	—	38,801	(40,580)	(1,779)
<i>From stage 3 to stage 2</i>	—	(3)	3	—
<i>From stage 3 to stage 1</i>	(1)	—	15	14
Asset derecognised (including final repayment)	30,133	590	966	31,689
Changes to risk parameters (model inputs)	8,411	(241)	(4,118)	4,052
Asset written off	—	—	96,848	96,848
Ending balance at June 30, 2020	(17,561)	(15,827)	(56,410)	(89,798)

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For the six months ended June 30, 2020

16 CONTRACT ASSETS (continued)

Movement of ECL allowance (continued)

ECL allowance	Six months ended June 30, 2019			
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Opening balance at January 1, 2019	(9,364)	(5,013)	(5,519)	(19,896)
New financial assets originated	(36,715)	—	—	(36,715)
Transfer for the period:				
From stage 1 to stage 2	810	(10,084)	—	(9,274)
From stage 1 to stage 3	993	—	(13,026)	(12,033)
From stage 2 to stage 1	(1)	11	—	10
From stage 2 to stage 3	—	3,172	(3,344)	(172)
From stage 3 to stage 2	—	(2)	2	—
Asset derecognised (including final repayment)	4,869	1,806	292	6,967
Changes to risk parameters (model inputs)	(12,966)	46	(255)	(13,175)
Asset written off	—	—	9,258	9,258
Ending balance at June 30, 2019	(52,374)	(10,064)	(12,592)	(75,030)

Note: Contract assets originated and derecognised or written off in the same period are not included in the above movements.

ECL allowance

ECL allowance	Six months ended June 30, 2020			
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
ECL charged for the period	36,281	23,503	(113,637)	(53,853)

ECL allowance

ECL allowance	Six months ended June 30, 2019			
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
ECL charged for the period	(43,010)	(5,051)	(16,331)	(64,392)

Note: The Group receives upfront payments from borrowers at loan inception and subsequent payments over the term of the loan. Contract asset represents the Group's right to consideration in exchange for services that the Group has provided. A substantial majority of the Group's contract assets as at June 30, 2020 would be realized within the next 12 months as the weighted average term of the arrangements where the Group is not the loan originator was less than 12 months. The Group determined there is no significant financing component for its arrangements where the Group is not the loan originator.

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For the six months ended June 30, 2020

17 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Guarantee receivables	770,386	760,973
Less: ECL allowance	<u>(153,994)</u>	<u>(139,725)</u>
	<u>616,392</u>	<u>621,248</u>

A summary of the Group's guarantee receivables movement is presented below:

	Six months ended June 30, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Guarantee receivables		
Opening balance	621,248	206,146
Addition arising from new business	735,002	611,209
ECL	(108,579)	(62,364)
Reversal due to early repayment	(59,441)	(32,903)
Payment received from borrowers	<u>(571,838)</u>	<u>(269,502)</u>
Ending balance	<u>616,392</u>	<u>452,586</u>

Movement of gross carrying amount

Guarantee receivables	Six months ended June 30, 2020			
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Opening balance at January 1, 2020	682,268	40,223	38,482	760,973
New financial assets originated	541,099	—	—	541,099
Transfer for the period:				
From stage 1 to stage 2	(29,325)	29,325	—	—
From stage 1 to stage 3	(87,386)	—	87,386	—
From stage 2 to stage 1	24	(24)	—	—
From stage 2 to stage 3	—	(39,601)	39,601	—
From stage 3 to stage 2	—	2	(2)	—
Asset derecognised (including final repayment)	(434,492)	(604)	(2,280)	(437,376)
Asset written off	<u>—</u>	<u>—</u>	<u>(94,310)</u>	<u>(94,310)</u>
Ending balance at June 30, 2020	<u>672,188</u>	<u>29,321</u>	<u>68,877</u>	<u>770,386</u>

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For the six months ended June 30, 2020

17 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (continued)

Movement of gross carrying amount (continued)

Guarantee receivables	Six months ended June 30, 2019			Total RMB'000 (Unaudited)
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	
Opening balance at January 1, 2019	216,453	9,077	10,404	235,934
New financial assets originated	469,229	—	—	469,229
Transfer for the period:				
From stage 1 to stage 2	(13,342)	13,342	—	—
From stage 1 to stage 3	(18,331)	—	18,331	—
From stage 2 to stage 3	—	(5,816)	5,816	—
Asset derecognised (including final repayment)	(157,020)	(3,256)	(149)	(160,425)
Asset written off	—	—	(17,834)	(17,834)
Ending balance at June 30, 2019	496,989	13,347	16,568	526,904

Movement of ECL allowance

ECL allowance	Six months ended June 30, 2020			Total RMB'000 (Unaudited)
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	
Opening balance at January 1, 2020	(66,215)	(36,665)	(36,845)	(139,725)
New financial assets originated	(49,742)	—	—	(49,742)
Transfer for the period:				
From stage 1 to stage 2	2,696	(26,874)	—	(24,178)
From stage 1 to stage 3	8,033	—	(83,834)	(75,801)
From stage 2 to stage 1	(2)	22	—	20
From stage 2 to stage 3	—	36,291	(37,991)	(1,700)
From stage 3 to stage 2	—	(2)	2	—
Asset derecognised (including final repayment)	39,942	554	2,187	42,683
Changes to risk parameters (model inputs)	4,514	(339)	(4,036)	139
Asset written off	—	—	94,310	94,310
Ending balance at June 30, 2020	(60,774)	(27,013)	(66,207)	(153,994)

17 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (continued)

Movement of ECL allowance (continued)

ECL allowance	Six months ended June 30, 2019			Total RMB'000 (Unaudited)
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	
Opening balance at January 1, 2019	(11,419)	(8,302)	(10,067)	(29,788)
New financial assets originated	(34,555)	—	—	(34,555)
Transfer for the period:				
From stage 1 to stage 2	983	(12,154)	—	(11,171)
From stage 1 to stage 3	1,350	—	(17,622)	(16,272)
From stage 2 to stage 3	—	5,298	(5,591)	(293)
Asset derecognised (including final repayment)	11,563	2,966	143	14,672
Changes to risk parameters (model inputs)	(14,307)	83	(521)	(14,745)
Asset written off	—	—	17,834	17,834
Ending balance at June 30, 2019	(46,385)	(12,109)	(15,824)	(74,318)

Note: Guarantee receivables originated and derecognised or written off in the same period are not included in the above movements.

ECL allowance	Six months ended June 30, 2020			Total RMB'000 (Unaudited)
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	
ECL charged for the period	5,441	9,652	(123,672)	(108,579)

ECL allowance	Six months ended June 30, 2019			Total RMB'000 (Unaudited)
	Stage 1 RMB'000 (Unaudited)	Stage 2 RMB'000 (Unaudited)	Stage 3 RMB'000 (Unaudited)	
ECL charged for the period	(34,966)	(3,807)	(23,591)	(62,364)

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

17 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (continued)

Movement of ECL allowance (continued)

A summary of the Group's guarantee liabilities movement activities is presented below:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Guarantee liabilities		
Opening balance	723,617	204,496
Addition arising from new business	735,002	611,209
Release of the margin	(41,606)	(34,141)
ECL	463,132	150,333
Reversal due to early repayment	(59,441)	(32,903)
Payouts during the period, net ⁽ⁱ⁾	(1,132,311)	(288,530)
Ending balance	688,393	610,464

(i) The increase in payouts during the six months ended June 30, 2020 is mainly due to an adverse impact on delinquency rates as a result of the outbreak of the COVID-19 pandemic.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at	As at
	June 30,	December 31,
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Unlisted equity investment ⁽ⁱ⁾	20,000	—
Money market fund	282	280
	20,282	280

(i) The Group invested RMB20 million to acquire 10.92 million shares of Guoren Property and Casualty Insurance Co. Ltd. ("Guoren P&C") to become one of its shareholders with a 0.27% interest in Guoren P&C. Guoren P&C is a national property and casualty insurance company, established with the approval of the China Banking Regulatory Commission ("CBRC"). The increase of the registered capital of Guoren P&C was approved by CBRC on April 9, 2020.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The following table sets forth the movement of the Group's investments accounted for using the equity method:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Opening balance	37,430	27,684
Share of net (loss)/profit	(11,235)	992
Disposal	(6,107)	—
Translation difference	374	5
Ending balance	20,462	28,681

20 DEFERRED INCOME TAX

	As at June 30, 2020		As at December 31, 2019	
	Deductible/ (taxable) temporary differences RMB'000 (Unaudited)	Deferred income tax assets/ (liabilities) RMB'000 (Unaudited)	Deductible/ (taxable) temporary differences RMB'000 (Audited)	Deferred income tax assets/ (liabilities) RMB'000 (Audited)
Deferred income tax liabilities				
Unrealized gains	(349,815)	(32,925)	(1,439,867)	(299,103)
Others	(2,756)	(689)	(2,756)	(689)
	(352,571)	(33,614)	(1,442,623)	(299,792)
Deferred income tax assets				
ECL allowance	640,316	160,079	475,308	118,827
Fair value change of loan to customers	3,032,283	593,294	2,285,951	563,120
	3,672,599	753,373	2,761,259	681,947
Net deferred income tax assets	3,320,028	719,759	1,318,636	382,155

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

20 DEFERRED INCOME TAX (continued)

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities as follows:

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Deferred income tax assets	740,352	468,256
Deferred income tax liabilities	(20,593)	(86,101)
Net deferred income tax assets	719,759	382,155

The movements of the deferred income tax account are as following:

	ECL allowance RMB'000 (Unaudited)	Fair value change RMB'000 (Unaudited)	Unrealized gains RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
As at January 1, 2020	118,827	563,120	(299,103)	(689)	382,155
Recognized in the profit or loss	41,252	30,174	266,178	—	337,604
As at June 30, 2020	160,079	593,294	(32,925)	(689)	719,759
As at January 1, 2019	41,459	578,094	(289,600)	5,430	335,383
Adjustment on adoption of IFRS 16	—	—	—	476	476
Restated balance as at January 1, 2019	41,459	578,094	(289,600)	5,906	335,859
Recognized in the profit or loss	31,040	(34,640)	32,043	(6,624)	21,819
As at June 30, 2019	72,499	543,454	(257,557)	(718)	357,678

Deferred income tax assets are recognized for tax losses carried forwards and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. As at June 30, 2020, the Group did not recognise deferred income tax assets in respect of tax losses and deductible temporary differences of approximately RMB6,000 (June 30, 2019: RMB2,169,000).

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

21 OTHER ASSETS

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Security deposits in financial institutions	289,132	333,523
Due from business partners	98,431	184,177
Prepaid expense	54,207	48,737
Receivable from third party payment companies	26,282	54,208
Rental deposits	6,591	8,061
Other receivables	3,145	21,026
	477,788	649,732
Less: ECL allowance	(3,993)	(1,585)
	473,795	648,147

22 BORROWINGS

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Denominated in RMB:		
Payable to trust plan holders ⁽ⁱ⁾	4,968,460	8,637,946
Borrowings from corporations	557,332	598,383
	5,525,792	9,236,329

- (i) The trust plan holders have priority to repayments from the loans to customers originated by those trust plans. The fair value of those loans to customers was RMB5,160.6 million as at June 30, 2020 (December 31, 2019: RMB9,141.1 million).

Effective interest rates of borrowings

	As at June 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Payable to trust plan holders	6.80%~12.50%	6.80%~12.50%
Borrowings from corporations	6.25%~14.00%	6.25%~12.00%

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

22 BORROWINGS (continued)

Contractual maturities of borrowings

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Within 1 year	1,935,555	3,721,399
Between 1 and 2 years	3,254,087	4,903,920
Between 2 and 5 years	336,150	611,010
	5,525,792	9,236,329

Borrowings by repayment schedule

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Within 1 year	4,920,172	8,382,699
Between 1 and 2 years	605,620	626,210
Between 2 and 5 years	—	227,420
	5,525,792	9,236,329

23 SENIOR NOTES

VCREDIT N2106 (Code: 5064)

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Opening balance	678,829	—
Issuance	—	660,602
Accrued interest	38,464	2,037
Discount amortization	6,762	335
Interest expense paid	(38,915)	—
Exchange difference	10,335	(496)
Ending balance	695,475	662,478

24 OTHER LIABILITIES

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Accrued service fees	150,412	157,851
Due to financial institutions	105,817	102,800
Deposits collected from borrowers	33,815	32,849
Employee benefit liability	16,532	13,932
Contract liabilities	—	849
Others	6,609	5,765
	313,185	314,046

25 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares Shares'000	Share capital RMB'000	Share premium RMB'000
(Unaudited)			
At January 1, 2019	499,487	40,938	5,581,926
At June 30, 2019	499,487	40,938	5,581,926
At January 1, 2020	499,203	40,913	5,581,016
Shares repurchased and cancelled	(709)	(56)	(2,590)
Vesting of share awards	—	—	(209)
At June 30, 2020	498,494	40,857	5,578,217

26 TREASURY SHARES

	As at June 30, 2020		As at December 31, 2019	
	Shares'000 (Unaudited)	RMB'000 (Unaudited)	Shares'000 (Audited)	RMB'000 (Audited)
Treasury shares held under share award scheme	(4,974)	(38,999)	(6,530)	(51,774)

These shares are held by the VCREDIT No. 1 Share Award Scheme Trusts for the purpose of share award scheme mentioned in the note 27.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

26 TREASURY SHARES (continued)

Movements in treasury shares during the half-year are as follows:

	Six months ended June 30,			
	2020		2019	
	Shares'000 (Unaudited)	RMB'000 (Unaudited)	Shares'000 (Unaudited)	RMB'000 (Unaudited)
Opening balance	(6,530)	(51,774)	—	—
Vesting of share awards	1,556	12,775	—	—
Acquisition of shares by the VCREDIT No. 1 Share Award Scheme Trusts	—	—	(5,869)	(46,476)
Ending balance	(4,974)	(38,999)	(5,869)	(46,476)

27 SHARE-BASED PAYMENTS

Share options

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Exercise Price in US\$ per Share Option			Number of Share Options ('000)		
	2016 ESOP	2017 ESOP I	2017 ESOP II	2016 ESOP	2017 ESOP I	2017 ESOP II
	(Unaudited) Outstanding balance as at January 1, 2020	0.8735	1.6123	1.6123	16,865	46,517
Lapsed	0.8735	1.6123	—	(1,167)	(5,278)	—
Outstanding balance as at June 30, 2020	0.8735	1.6123	1.6123	15,698	41,239	26,115

	Exercise Price in US\$ per Share Option			Number of Share Options ('000)		
	2016 ESOP	2017 ESOP I	2017 ESOP II	2016 ESOP	2017 ESOP I	2017 ESOP II
	(Unaudited) Outstanding balance as at January 1, 2019	0.8735	1.6123	1.6123	20,800	46,517
Outstanding balance as at June 30, 2019	0.8735	1.6123	1.6123	20,800	46,517	26,115

27 SHARE-BASED PAYMENTS (continued)**Share award schemes**

Movement in the number of share awards for the six months ended June 30, 2019 and 2020 is as follows:

	Number of share awards (‘000)
(Unaudited)	
Outstanding balance as at January 1, 2020	6,530
Vested	(1,556)
Forfeited	(444)
Outstanding balance as at June 30, 2020	4,530
	Number of share awards (‘000)
(Unaudited)	
Outstanding balance as at January 1, 2019	—
Granted	6,530
Outstanding balance as at June 30, 2019	6,530

The fair value of each share award at its grant date, determined by reference to the market price of the ordinary shares of the Company, is recognised over the vesting period as employee benefit expense.

28 CONTINGENCIES

Other than as disclosed in previous notes, the Group did not have any significant contingent liabilities as at June 30, 2020.

29 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are primarily trust plans. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. The factors considered include scope of the manager’s decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. For those trust plans where the Group provides financial guarantee, the Group therefore has obligation to fund the losses, if any, in accordance with the guarantee agreements although the Group does not have any investment in those products. The Group concludes that these structured entities shall be consolidated.

As at June 30, 2020, total assets under management of the trust plans consolidated by the Group amounted to RMB5.86 billion (December 31, 2019: RMB9.85 billion).

Interests held by other interest holders are included in payable to trust plan holders.



Notes to the Interim Condensed Consolidated Financial Information

For the six months ended June 30, 2020

30 DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended June 30, 2020 (for the six months ended June 30, 2019: nil).

31 SUBSEQUENT EVENTS

Up to the date of this report, the Group had no material events for disclosure after the end of the period.

32 COMPARATIVE FIGURES

Certain comparative figures have been reclassified or restated to conform to the interim condensed consolidated financial information's presentation.