You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this prospectus, including the sections headed "Risk Factors" and "Business."

For the purpose of this section, unless the context otherwise requires, references to 2015, 2016, and 2017 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a leading independent online consumer finance service provider in China. According to the Frost & Sullivan Report, as of December 31, 2017, we are one of the top 10 independent online consumer finance service providers in China, and our *KK Credit* product line ranked first in China's credit card balance transfer market with an approximately 16.4% market share, both in terms of the balance of outstanding principal of loans. We offer tailored consumer finance products to prime and near-prime borrowers who are under-served by traditional financial institutions. We offer consumer finance products primarily by originating transactions between borrowers and traditional financial institutions through three funding structures, and we also directly lend to borrowers. For the years ended December 31, 2015, 2016 and 2017, we originated RMB3.53 billion, RMB7.87 billion, and RMB24.54 billion of loans, respectively, representing a CAGR of 163.7%.

We primarily offer three lines of credit products: credit card balance transfer products, consumption credit products, and online-to-offline credit products, all of which are installment-based. Our credit card balance transfer products allow credit card holders to transfer the outstanding balances of their credit cards to our installment credit products to bridge their short-term liquidity management needs. Our consumption credit products provide consumers with a variety of installment credit solutions tailored for specific user cases. Our online-to-offline credit products primarily serve consumers' larger financing needs.

Our total income increased from RMB1.06 billion for 2015 to RMB1.43 billion and RMB2.71 billion for 2016 and 2017, respectively, representing a CAGR of 59.6%. Our operating loss was RMB152.4 million and RMB349.8 million for 2015 and 2016, respectively, and we recorded operating profit of RMB347.4 million for 2017. We recorded net loss of RMB303.1 million, RMB565.1 million, and RMB1.00 billion for 2015, 2016, and 2017, respectively. Excluding the impact of fair value loss of our Preferred Shares and our share-based compensation expenses, we had adjusted net loss of

RMB155.3 million and RMB275.1 million for 2015 and 2016, respectively, and we had adjusted net profit of RMB292.5 million for 2017. For further details of our adjusted net (loss)/profit, see the sections headed "Financial Information—Consolidated Income Statement" and "Financial Information—Non-IFRS Measures."

BASIS OF PRESENTATION

Our Company was incorporated as "Vision Capital Group Limited" in the BVI in July 2007. Since the beginning of the Track Record Period, our Company has been the holding company of all the businesses that we are currently operating, and our Controlling Shareholder has remained unchanged. In February 2018, we re-domiciled our Company from the BVI to the Cayman Islands and changed to our current name without changing our shareholding structure. For further details of our re-domiciliation, see the section headed "History, Development and Corporate Structure—Re-domiciliation of Our Company from the BVI to the Cayman Islands."

In preparing and presenting the Historical Financial Information, we have consistently applied IFRS that were effective for the accounting period beginning on January 1, 2015 during the Track Record Period. We have early adopted IFRS 15 and applied it throughout the Track Record Period, but we did not apply in advance certain significant new and revised IFRS relevant to our financial performance that have been issued but were not yet effective during the Track Record Period, including IFRS 9. IFRS 9 is effective for the financial year beginning on or after January 1, 2018 and imposes new requirements on the classification and measurement of financial instruments and requires an expected credit loss model. For a discussion of IFRS 9 and its impact on us, see the section headed "—Critical Accounting Policies, Judgments, and Estimates—Application of IFRS—IFRS 9 Financial Instruments."

We prepared the Historical Financial Information on a historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value. Where necessary, accounting policies of our subsidiaries have been adjusted to ensure consistency with the accounting policies adopted by our Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. The Historical Financial Information is presented in Renminbi.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which are outside of our control, including the following:

China's economic and market trends

Our business depends on the growing consumer demand for credit, which in turn depends on China's economic growth. There has been a recent trend that China's economic growth is driven by its consumption growth at a faster speed, according to the Frost & Sullivan Report. Consumer demand has been fueled by the increasing disposable income of China's emerging middle class and a growing willingness to take on debt for consumption by China's younger generation. China's online consumer finance market also has experienced significant growth along with the increasing Internet and mobile penetration in recent years. According to the Frost & Sullivan Report, the total balance of outstanding loan principal of the online consumer finance market increased from approximately RMB13.41 billion to RMB1.04 trillion between 2013 and 2017, representing a CAGR of 196.5%, and is forecasted to expand further and reach approximately RMB7.54 trillion by 2022, representing a CAGR of 48.7% during the period of 2017 to 2022. Sustaining consumption growth and favorable market conditions will likely result in an increasing demand for our credit products and services, and continuous expansion of our customer base. Nevertheless, the nature, timing and extent of changes in China's consumption growth and online consumer finance market conditions are unpredictable. Unfavorable economic and market conditions could result in a declining demand for our credit products and services, which may in turn result in higher delinquency ratios and deterioration of our loan asset quality.

China's online consumer finance market is highly competitive and fragmented. As of December 31, 2017, there were approximately 350 online consumer finance service providers operating in this market of China, according to the Frost & Sullivan Report. The intense competition in China's online consumer finance market could affect the pricing of our credit products. We do not directly compete against banks and other traditional financial institutions, because our target market of under-served prime and near-prime borrowers differs from that of traditional financial institutions. Moreover, we actively use risk-based pricing and tailored credit products to attract our target borrowers. We believe our unique business model, tailored credit products and strong risk management capability will separate us from our competitors. We believe that the growth and profitability of our business will continue to depend on our ability to distinguish our products and services in a competitive market.

Government regulations and policies

The regulatory environment for China's consumer finance market is developing and evolving, creating both challenges and opportunities that could affect our financial performance. We cooperate with licensed financial institutions, primarily trust companies, banks, and consumer financial companies, to fund the loans we originate. As a supplement to external funding, two of our subsidiaries are small loan companies approved to conduct online small loan business and one of our subsidiaries is a licensed financing guarantee company. These licensed entities provide us with the flexibility to use our own capital to fund or provide credit enhancement services for our lending business. We have a proven record of managing China's evolving regulatory environment, and we believe that we are well positioned to embrace the opportunities arising from regulatory changes. The application, implementation, and interpretation of PRC laws and regulations relevant to us and our business operations are often complicated, and the PRC government authorities have broad discretion in the implementation and interpretation of these laws and regulations. Consequently, we may have to adjust our business practices, funding structures, product offerings, or pricing from time to time, and sometimes these adjustments may adversely affect our results of operations. We will continue to make efforts to ensure that we are compliant with existing laws, regulations and government policies relating to our business and to comply with new laws and regulations that may arise in the future. For an overview of applicable laws and regulations and risks relating to China's consumer finance market, see the sections headed "Regulations" and "Risk Factors."

Capital base and sources of funds

Our capital base and our ability to raise adequate and timely funds affect the successful execution of our business expansion and other strategies. The impact of these factors varies depending on the funding structures of our credit products.

Our trust lending and credit-enhanced loan facilitation structures require our financing guarantee company to provide loan guarantees, and the scale of its business depends on its capital base. For example, a financing guarantee company' outstanding guarantee liabilities cannot exceed 10 times of its net assets. Our trust lending and credit-enhanced loan facilitation structures constituted 89.7%, 88.0%, and 91.3% of our total loan origination volume in 2015, 2016, and 2017, respectively. We intend to strengthen the capital base of our financing guarantee company to support these two funding structures by capital injection using part of the net proceeds of the Global Offering. See "Future Plans and Use of Proceeds—Use of Proceeds."

We execute our direct lending structure through our online small loan companies, and the scale of their businesses depends on their respective capital bases. For example, an online small loan company is required to ensure that its balance of borrowings from financial institutions does not exceed 50% of its net capital. While loans originated through the direct lending structure constituted a relatively small portion of our total loan origination volume during the Track Record Period, we have to keep appropriate levels of capital and indebtedness in our online small loan companies to comply with regulatory requirements.

We have established and maintained diversified sources of funds at our Group level. During the Track Record Period, we obtained funds from various sources to support our business growth, primarily including (i) issuance of Preferred Shares, (ii) bank loans, and (iii) loans from other corporations and individuals. We have maintained our levels of borrowing in step with the expansion of our business and broadened our sources of funds. The Chinese and global credit environment, over which we have no control, may affect the amount and sources of funds that we can continue to access. Any developments that impact our ability to sustain and expand our sources of funds could affect our business and profitability.

Relationships with our funding partners

Our collaboration relationships with our funding partners are critical to our operations. Other than our direct lending structure, we collaborate with our funding partners through trust lending, credit-enhanced loan facilitation, and pure loan facilitation structures. For the years ended December 31, 2015, 2016 and 2017, our funding partners funded or structured approximately 90.7%, 89.2%, and 94.9% of the amount of loans we originated, respectively. Our collaboration terms with our funding partners generally determine the major costs of our credit products. If we fail to enhance or maintain our existing collaboration relationships with our funding partners, our capital efficiency may be adversely affected. In addition, if our relationships with our funding partners generally deteriorate, resulting in a significant decrease in loan origination volume funded by or through our funding partners, we will have to absorb significantly more loan origination volume through our direct lending structure, which would require significant additional capital and reduce our capital efficiency. We have formed solid long-term relationships with our funding partners. As of the Latest Practicable Date, we had collaboration relationships with 18 funding partners, including banks, trust companies, and other financial institutions. These diversified and stable funding relationships support the scalability of our business.

Our pure loan facilitation structure integrates our commercialized, SaaS-based *Hummingbird* credit risk management services with our loan facilitation services. This structure creates mutual benefits in terms of proactive risk management for our funding partners and capital efficiency for us. Since 2017, we have been further promoting our pure loan facilitation structure. We believe that these efforts to develop increasingly immersive partnerships with our funding partners, if successfully executed, will help strengthen our relationships with our funding partners.

Effectiveness of our risk management system

We believe that our comprehensive risk management system has been improving steadily to support our business growth. We have developed our proprietary core risk management system, *Hummingbird*, to perform various risk management functions, including four major tasks: identity verification, fraud detection and prevention, debt-to-income ratio assessment, and credit risk quantification. Our advanced *Hummingbird* system assists us in actively pricing credit products for prime and near-prime borrowers who are under-served by traditional financial institutions. A comprehensive and effective risk management system can help mitigate our risk exposure and control delinquency ratios of loans originated by us. Any significant deficiency or ineffectiveness in our risk management system will directly or indirectly result in an increase in delinquency of loans originated by us or failure of our loan servicing to recover losses. We will continuously monitor changes in the quality of our loan assets and adjust our risk management measures accordingly. We will also continue to invest in research and technology to ensure our competitiveness of our risk management system. For a discussion of the effectiveness of our risk management system, see the section headed "Business—Proprietary Technology—Hummingbird—Major Tasks."

Ability to maintain and expand our customer base efficiently

Due to the nature of our online consumer finance business, growth in our loan origination volume has been driven primarily by new and existing borrowers. Our monthly average repeat borrowing rate was 52.4% and 69.3%, respectively, in 2016 and 2017. Historically we primarily relied on word-of-mouth referrals among China's young generation. Our ability to maintain and expand our customer base efficiently would significantly affect our results of operations.

PRC tax incentives

We have benefited from enterprise income tax incentives granted by the PRC government authorities due to the location and business nature of one of our PRC subsidiaries. During the Track Record Period, one of our major PRC subsidiaries, VC Financial Technology, was qualified as a high- and new-technology enterprise in Shanghai and thus enjoyed the preferential income tax rate of 15% from 2015 to 2017. In November 2017, VC Financial Technology was further approved as a high- and new-technology enterprise, and will continue to enjoy a preferential income tax rate of 15% from 2018 to 2020. VC Financial Technology is our primary operating entity for our loans funded by or through our funding partners. Any modification or termination of any PRC tax incentives currently available to us will affect our financial position and results of operations. For more details of our PRC tax incentives, see the section headed "—Taxation—China."

CRITICAL ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

We have identified certain accounting policies, judgments, and estimates that are significant to the preparation of the Historical Financial Information in accordance with the IFRS. Our significant accounting policies, which are important for an understanding of our financial position and results of operations, are set forth in detail in Note 2 to the Accountant's Report in Appendix I. We have applied these significant accounting policies consistently throughout the Track Record Period.

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that we believe to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future, other than the new estimates and assumptions under IFRS 9 that we adopted beginning on January 1, 2018. Our critical accounting estimates and judgments that were used in the preparation of the Historical Financial Information are set forth in Note 3 to the Accountant's Report in Appendix I.

We have identified below the accounting policies, estimates and judgments that they believe are critical to the preparation of the Historical Financial Information.

Critical Accounting Policies

Revenue and Income Recognition

Revenue is recognized when services are provided to customers. Depending on the terms of the relevant contracts and the laws that apply to the contracts, services may be provided over time or at a point in time. Services are provided over time if our performance:

- provides all of the benefits received and consumed simultaneously by the customers;
- creates and enhances an asset that the customer controls as we perform; or
- does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If services transfer over time, revenue is recognized over the period of a contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains the services.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict our performance in satisfying the performance obligation:

- direct measurements of the value transferred by us to the customer; or
- our efforts or inputs to the satisfaction of the performance obligation.

If a contract involves multiple services, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

A receivable is recorded when we have an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

The following is a description of the accounting policy for our principal revenue streams.

Interest income of loans to customers

We have originated and held loans mainly through our consolidated trust plans, and we also directly lend to borrowers. Interest on the loans to customers is accrued based on the interest rates of the loans as earned using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset (including a group of financial assets) and of allocating the interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on impaired loans and receivables is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income

Loan facilitation service fees and gains from guarantees

We also generate non-interest income in the form of loan facilitation service fees and gains from guarantees by facilitating transactions between borrowers and financial institutions. We determined that we are not the legal lender and legal borrower in the loan origination and repayment process. Therefore, we do not record loans receivable and payable arising from the loans.

Our services consist of:

- Upfront loan facilitation services matching potential qualified borrowers to institutional investors and facilitating the execution of loan agreements between the parties;
- Post loan facilitation services providing repayment processing services for the institutional investors over the loan term, including following up on the late repayments;
- Guarantee service provided to institutional investors.

We receive upfront payments from borrowers at loan inception and receive subsequent payments over the term of the loan. The service fees are first allocated to the guarantee liabilities at fair value that meets the definition of a financial guarantee under IAS 39. The remaining amount is then allocated to upfront loan facilitation services and post loan facilitation services using best estimated selling prices, because there is neither vendor-specific objective evidence nor third-party evidence of selling prices.

Upfront loan facilitation service fees are recognized at loan inception. When cash received is not equal to the fee allocated to the upfront loan facilitation services, a "contract asset" or "contract liability" must be recognized in the consolidated statements of financial position. Post loan facilitation service fees are recognized over the terms of the loans, which approximate the pattern of when the underlying services are performed. Gains from guarantees are recognized ratably over the terms of the loans.

Overdue charges

Overdue charges are penalty charges upon late payments from the borrowers. Overdue charges are recognized as other income when incurred on a case-by-case basis. The collectability of these amounts is often highly uncertain. Therefore, we recognize overdue charges as revenue upon cash collection of these charges by the borrowers. Overdue charges are only highly probable to be collected when the actual overdue amounts are repaid and are recognized as revenue when the cash of overdue payments is collected.

Financial Assets Carried at Amortized Cost—Loans and Receivables

We classify our financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred, and on the contractual terms of the financial instruments. The financial instrument categories are: (i) financial assets at fair value through profit or loss and (ii) loans and receivables.

Our financial assets are initially measured at fair value, which normally will be equal to the transaction price plus, in the case of a financial asset not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs on financial assets at fair value through profit or loss are expensed immediately in profit and loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premiums on acquisition and includes fees or costs that are an integral part of the effective interest rate.

Impairment of Financial Assets Carried at Amortized Cost

For a financial asset that is individually significant, we assess the asset individually for impairment. For a financial asset that is not individually significant, we assess the asset individually for impairment or include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If we determine that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), we include the asset in a group of financial assets with similar credit risk characteristics and collectively reassess them for impairment. Assets for which an impairment loss is individually recognized are not included in a collective assessment of impairment.

If a financial asset carried at amortized cost is impaired, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognized as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on a financial asset carried at amortized cost, there is objective evidence of a recovery in value of the financial asset that can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Guarantee Liabilities and Receivables

A financing guarantee contract that we enter into and is not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to our entrance into the financing guarantee contract. The fair value is estimated based on the contractual amounts of guarantee service contribution from the borrowers taking into the underlying risk profile and historical loss experience. Subsequent to initial recognition, we measure the financing guarantee contract at the higher of (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IFRS 15. Our financing guarantee is the guarantee liabilities recorded in our consolidated statements of financial position.

The receivables are determined to be collectible at loan inception because at this point in time, the borrower has committed to pay the full amount over the life of the loan. By taking into account the risk of default in the fair value estimate, the receivables that we record represent what are deemed to be collectible. At each reporting date, we estimate the future cash flows and assess whether there is any indicator of impairment to any individual underlying loans of the guarantee receivables. If the carrying amounts of the guarantee receivables exceed the expected collectives, an impairment loss is recorded for guarantee receivables not recoverable.

Preferred Shares

Our Preferred Shares are redeemable upon occurrence of certain future events and at the option of the holders. This instrument may be converted into our Shares at any time at the option of the holders or automatically converted into Shares upon occurrence of an initial public offering of our Company.

We designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance expenses in the consolidated statements of comprehensive income.

Subsequent to initial recognition, the Preferred Shares are carried at fair value with changes in fair value recognized in the profit or loss.

Application of IFRS

In preparing and presenting the Historical Financial Information, we have early adopted IFRS 15, but we have not applied in advance certain significant new and revised IFRS relevant to our financial performance that have been issued but were not yet effective during the Track Record Period. Application of new and revised IFRS was set forth in Note 2 to the Accountant's Report in Appendix I. We have identified the following IFRS that we believe may have a material impact on our financial performance in the future.

IFRS 9—Financial Instruments

The complete version of IFRS 9—Financial Instruments was issued in July 2014, which replaces the guidance in IAS 39—Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The key changes to our accounting policies and the expected impact resulting from the adoption of IFRS 9 are described below.

Classification and measurement

The classification and measurement of financial assets will depend on how the assets are managed (our business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortized cost or fair value compared with IAS 39.

The IFRS 9 classification and measurement model requires that all debt instrument financial assets that do not meet a "solely payment of principal and interest" test, including those that contain embedded derivatives, be classified at initial recognition as fair value through profit or loss. The intent of the "solely payment of principal and interest" test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured at fair value through profit or loss. Subsequent measurement of instruments classified as fair value through profit or loss under IFRS 9 operates in a similar manner to trading under IAS 39.

For debt instrument financial assets that meet the "solely payment of principal and interest" test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis will be classified as fair value through profit or loss. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as fair value through other comprehensive income for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as amortized cost. Subsequent measurement of instruments classified at fair value through other comprehensive income and amortized cost classifications under IFRS 9 operate in a similar manner to AFS for debt securities and loans and receivables, respectively, under existing IAS 39, except for the impairment provisions which are discussed below.

For those debt instrument financial assets that would otherwise be classified as fair value through other comprehensive income or amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

All equity instrument financial assets are required to be classified at initial recognition as fair value through profit or loss unless an irrevocable designation is made to classify the instrument as fair value through other comprehensive income for equities. Unlike AFS for equity securities under IAS 39, the fair value through other comprehensive income for equities category results in all realized and unrealized gains and losses being recognized in other comprehensive income with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current IAS 39 requirements, except that changes in fair value of liabilities designated at fair value through profit or loss attributable to changes in own credit risk are to be presented in other comprehensive income, rather than profit and loss.

Derivatives will continue to be measured at fair value through profit or loss under IFRS 9.

Impairment

The new impairment guidance sets out an expected credit loss model applicable to all debt instrument financial assets classified as amortized cost or fair value through other comprehensive income. In addition, the expected credit loss model applies to financial guarantees that are not measured at fair value through profit or loss.

Expected credit loss methodology

The application of expected credit loss will change our credit loss methodology and models. Expected credit loss allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Expected credit loss allowances will be measured at amounts equal to either: (i) 12-month expected credit loss; or (ii) lifetime expected credit loss for those financial instruments which have experienced a significant increase in credit risk since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

Stage migration and significant increase in credit risk

Financial instruments subject to the expected credit loss methodology are categorized into three stages.

- *For non-impaired financial instruments:*

Stage 1 is comprised of all non-impaired financial instruments which have not experienced a significant increase in credit risk since initial recognition. Entities are required to recognize 12 months of expected credit loss for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

Stage 2 is comprised of all non-impaired financial instruments which have experienced a significant increase in credit risk since initial recognition. Entities are required to recognize lifetime expected credit loss for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then entities shall revert to recognizing 12 months of expected credit loss. In contrast to stage 1 and stage 2, inherent within the incurred loss methodology under IAS 39, allowances are provided for non-impaired financial instruments for credit losses that are incurred but not yet identified.

- *For impaired financial instruments:*

Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The expected credit loss model requires that lifetime expected credit loss be recognized for impaired financial instruments, which is similar to the current requirements under IAS 39 for impaired financial instruments.

As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39, and the resulting impairment charge may be more volatile.

For guarantee receivables, the portion of the individually assessed allowances that relate to impaired financial instruments under IAS 39 will generally be replaced by stage 3 allowances, while the non-impaired portion of the collective allowances will generally be replaced by either stage 1 or stage 2 allowances under IFRS 9.

Transitional impact

The requirements of IFRS 9 were adopted from January 1, 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening accumulated deficit at date of initial application, with no requirement to restate comparative periods. We do not intend to restate comparatives.

As a result of the application of the classification and measurement requirements of IFRS 9, we have made the following major reclassifications.

- As of January 1, 2018, loans to customers of approximately RMB11.48 billion were reclassified from loans and receivables under IAS 39 to fair value through profit or loss under IFRS 9. This was done because the difference between the carrying amount of the loans and the repayment amount received is significant, so that these assets cannot pass the "solely payment of principal and interest" test, and therefore prevent their measurement at amortized cost.
- The adoption of IFRS 9 is expected to increase our net deficit as of January 1, 2018 by approximately RMB214 million on an after-tax basis.
- These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until we finalize our financial statements for the year ending December 31, 2018.

Critical Accounting Judgments and Estimates

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment Allowances on Loans to Customers

Impairment allowances on loans to customers represent our management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgment in making assumptions and estimates when calculating loan impairment allowances. We make judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on our assets. When loans are collectively assessed for impairment, management uses estimates based on historical loss experience for assets with credit risk characteristics similar to those in the portfolio and objective evidence of impairment. Historical loss experience is adjusted on the basis of the relevant observable data that reflects current economic conditions. The methodology and assumptions used for estimating the amount and timing of future cash flows, the historical loss experience and the relevant observable data that reflects current economic conditions are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Measurement of Financing Guarantee Liability

The financing guarantee liability is an expected compensation which will be paid in the future due to guarantee contract arrangement. When measuring the financing guarantee liabilities, we need to make a reasonable estimate of the amounts that we are required to pay in fulfilling the obligations under the guarantee contracts. Such estimates are determined based on the estimated loss rate of the loans, taking into account the underlying risk profile and historical loss record.

Valuation of Share-based Compensation Expenses

The fair value of share options granted are measured on the respective grant dates based on the fair value of the underlying shares. We have used the binomial option-pricing model to determine the fair value of the share options as at the grant date. In addition, we are required to estimate the expected percentage of grantees that will remain in employment with us or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. We only recognize an expense for those share options expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expenses.

The fair value of share options at the time of grant is to be expensed over the vesting period of these share-based awards based on an accelerated graded attribution approach. Under the accelerated graded attribution approach, each vesting installment of a graded vesting award is treated as a separate share-based award, which means that each vesting installment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expense.

Valuation of Preferred Shares

The Preferred Shares issued by us are not traded in an active market and the respective fair value is determined by using valuation techniques.

We use the discounted cash flow method to determine the underlying equity fair value of us and adopts equity allocation method to determine the fair value of Preferred Shares as of each date of issuance and at each reporting date. The valuation technique used to measure fair value is applied consistently. However, a change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate.

NON-IFRS MEASURES

To supplement our Historical Financial Information, which are presented in accordance with IFRS, we also use adjusted net (loss)/profit and adjusted total equity 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 impacts 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. Our presentation of the adjusted net (loss)/profit and adjusted total equity 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 you should not consider them in isolation from, or as substitutes for analysis of, our results of operations or financial position as reported under IFRS.

Adjusted net (loss)/profit eliminates the effect of fair value loss of our Preferred Shares and our share-based compensation expenses.

The following table reconciles our adjusted net (loss)/profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is (loss)/profit for the year:

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Loss for the year	(303,143)	(565,050)	(1,003,133)
Add:			
Fair value loss of Preferred Shares	146,590	270,512	1,285,496
Share-based compensation expenses	1,231	19,419	10,126
Non-IFRS Measure			
Adjusted net (loss)/profit (unaudited)	(155,322)	(275,119)	292,489

Adjusted total equity is calculated as if the Preferred Shares had been converted into ordinary shares as of each reporting date.

The following table reconciles our adjusted total equity as of the dates indicated to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is total deficit.

	As of December 31,		
	2015	2016	2017
		RMB'000	
Total deficit	(169,887)	(809,552)	(1,508,610)
Add:			
Preferred Shares	838,798	1,560,194	3,042,173
Non-IFRS Measure			
Adjusted total equity (unaudited)	668,911	750,642	1,533,563

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

The following table sets forth our consolidated statements of comprehensive loss items in absolute amounts and as percentages of the total income for the periods indicated.

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Net interest income	991,412	93.2%	1,282,922	89.6%	2,336,290	86.3%
Loan facilitation service fees	34,769	3.3%	55,001	3.8%	83,916	3.1%
Other income	36,748	3.5%	94,862	6.6%	286,176	10.6%
Total income	**1,062,929**	**100.0%**	**1,432,785**	**100.0%**	**2,706,382**	**100.0%**
Origination and servicing expenses	(312,218)	(29.4)%	(410,995)	(28.7)%	(607,614)	(22.5)%
Sales and marketing expenses	(18,964)	(1.8)%	(61,821)	(4.3)%	(68,963)	(2.5)%
General and administrative expenses	(101,763)	(9.6)%	(163,360)	(11.4)%	(181,747)	(6.7)%
Research and development expenses	(14,653)	(1.4)%	(30,032)	(2.1)%	(74,379)	(2.7)%
Impairment losses	(737,555)	(69.3)%	(1,002,389)	(70.0)%	(1,417,439)	(52.4)%
Other losses, net	(30,158)	(2.8)%	(113,971)	(7.9)%	(8,840)	(0.4)%
Operating (loss) / profit	**(152,382)**	**(14.3)%**	**(349,783)**	**(24.4)%**	**347,400**	**12.8%**
Share of net loss of associates accounted for using the equity method	—	—	(748)	(0.1)%	(6,368)	(0.2)%
Fair value loss of Preferred Shares	(146,590)	(13.8)%	(270,512)	(18.8)%	(1,285,496)	(47.5)%
Loss before income tax	**(298,972)**	**(28.1)%**	**(621,043)**	**(43.3)%**	**(944,464)**	**(34.9)%**
Income tax credit / (expenses)	(4,171)	(0.4)%	55,993	3.9%	(58,669)	(2.2)%
Loss for the year[(1)]	**(303,143)**	**(28.5)%**	**(565,050)**	**(39.4)%**	**(1,003,133)**	**(37.1)%**
Non-IFRS Measure						
Adjusted net (loss) / profit (unaudited)[(2)]	**(155,322)**	**(14.6)%**	**(275,119)**	**(19.2)%**	**292,489**	**10.8%**

Notes:

(1) IFRS 9 has been effective since January 1, 2018. Assuming other factors remain unchanged, we are required under IFRS 9 to recognize loss earlier, and thus could recognize higher amount of loss in a given reporting period in light of the anticipated increase in loan volume. For more details, see the section headed "Risk Factors—Risks Relating to Our Business and Industry—Changes in accounting standards may make it difficult to compare our results of operations."

(2) We define adjusted net (loss)/profit as loss for the year with our fair value loss of Preferred Shares and our share-based compensation expenses added back. Adjusted net (loss)/profit is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net (loss)/profit has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. For further details, see the section headed "—Non-IFRS Measures."

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Our chief executive officer and other members of our senior management regularly review and evaluate our business operations and are responsible for allocating resources and making strategic decisions. They consider our business to be operated and managed as a single segment. Accordingly, no segment information is presented in this section or the Historical Financial Information.

Total income

During the Track Record Period, we derived total income through (i) net interest income, (ii) loan facilitation service fees, and (iii) other income. We offer three lines of credit products: credit card balance transfer products, consumption credit products, and online-to-offline credit products. We fund our credit products through four structures: direct lending, trust lending, credit-enhanced loan facilitation, and pure loan facilitation. For 2015, 2016, and 2017, we generated total income of RMB1.06 billion, RMB1.43 billion, and RMB2.71 billion, respectively.

Net interest income

Our net interest income is comprised of (i) interest income and (ii) interest expenses. For 2015, 2016, and 2017, our net interest income was RMB0.99 billion, RMB1.28 billion, and RMB2.34 billion, respectively.

The following table sets forth our net interest income for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Interest income	1,291,582	1,724,119	3,254,516
Interest expenses	(300,170)	(441,197)	(918,226)
Net interest income	**991,412**	**1,282,922**	**2,336,290**

Interest income

We generate interest income primarily from loans to customers, which are originated by us primarily through the trust lending structure (where the trust plans lend money to borrowers and we invest in subordinated tranches of the trust plans and provide loan guarantees to the trust plans) and, to a lesser extent, through the direct lending structure. We also generated interest income from our automobile financing lease business in 2015 and 2016. We ceased this business in 2016 to concentrate our capital, resources and management's attention on our transformation into an online consumer finance operation.

The following table sets forth our interest income for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Interest income on loans to customers	1,291,462	1,724,069	3,254,516
Interest income on financing leases	120	50	—
Interest income	**1,291,582**	**1,724,119**	**3,254,516**

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

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Interest income						
Credit Card Balance Transfer Products	6,456	0.5%	204,785	11.9%	1,012,398	31.1%
Consumption Credit Products	267	0.0%	80,681	4.7%	814,992	25.0%
Online-to-Offline Credit Products	1,284,859	99.5%	1,438,653	83.4%	1,427,126	43.9%
Total	**1,291,582**	**100.0%**	**1,724,119**	**100.0%**	**3,254,516**	**100.0%**

Interest expenses

Our interest expenses are primarily comprised of our payments to the trust investors that have subscribed to the senior tranches of the applicable trust plans, representing these trust investors' interest income guaranteed by us under the trust lending structure. To a lesser extent, our interest expenses also include our interest payments with respect to our bank loans and other borrowings to support our subscriptions to subordinated tranches of the trust plans as well as our business operations. Our interest expenses increased from RMB300.2 million in 2015 to RMB441.2 million in 2016 and further to RMB918.2 million in 2017. Specifically, for 2015, 2016, and 2017, our interest expenses in connection with our payments to the trust investors under our trust lending structure were RMB258.8 million, RMB368.1 million, and RMB813.5 million, respectively.

Loan facilitation service fees

We generate loan facilitation service fees from loans originated through the credit-enhanced loan facilitation structure (where we provide loan facilitation services and loan guarantees for the loans that we facilitate) and the pure loan facilitation structure (where we provide loan facilitation services but neither fund the loans nor provide loan guarantees). For 2015, 2016, and 2017, our loan facilitation service fees were RMB34.8 million, RMB55.0 million, and RMB83.9 million, respectively.

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.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Credit-enhanced loan facilitation	19,488	18,430	50,713
Pure loan facilitation	15,281	36,571	33,203
Loan facilitation service fees	**34,769**	**55,001**	**83,916**

We receive upfront payments at loan inception and subsequent payments over the term of the loan. The service fees are first allocated to the guarantee liabilities at fair value. The remaining amount is then allocated to upfront loan facilitation service and post loan facilitation service using best estimated selling price.

Upfront loan facilitation services primarily include matching potential qualified borrowers to institutional investors and facilitating the execution of loan agreements between the parties. We recognize the upfront loan facilitation service fees upon loan inception. Post loan facilitation services primarily include providing repayment processing services over the loan term. We recognize post loan facilitation service fees over the period of the loan, which approximates the pattern of when the underlying services are performed.

The following table sets forth the allocation of our loan facilitation service fees for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Upfront loan facilitation service fees	33,762	49,869	69,102
Post facilitation service fees	1,007	5,132	14,814
Loan facilitation service fees	**34,769**	**55,001**	**83,916**

Other income

We generate other income primarily from (i) overdue charges with respect to loans to customers originated by us, (ii) gains from guarantees with respect to loan guarantees provided by us in connection with the credit-enhanced loan facilitation structure, and (iii) risk management system service fees with respect to our value-added services based on our *Hummingbird* system that we began offering in 2017. For 2015, 2016, and 2017, our other income was RMB36.7 million, RMB94.9 million, and RMB286.2 million, respectively.

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

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Overdue charges	34,766	81,241	248,068
Risk management system service fees	—	—	13,091
Gains from guarantees	459	1,383	9,211
Others	1,523	12,238	15,806
Other income	**36,748**	**94,862**	**286,176**

Expenses

The following table sets forth a breakdown of our expenses in absolute amounts and as percentages of our total expenses for the periods indicated.

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Origination and servicing expenses	312,218	25.7%	410,995	23.0%	607,614	25.8%
Sales and marketing expenses	18,964	1.6%	61,821	3.5%	68,963	2.9%
General and administrative expenses	101,763	8.4%	163,360	9.2%	181,747	7.7%
Research and development expenses	14,653	1.2%	30,032	1.7%	74,379	3.2%
Impairment losses	737,555	60.7%	1,002,389	56.2%	1,417,439	60.1%
Other losses, net	30,158	2.4%	113,971	6.4%	8,840	0.3%
Total expenses	**1,215,311**	**100.0%**	**1,782,568**	**100.0%**	**2,358,982**	**100.0%**

Origination and servicing expenses

The following table sets forth a breakdown of our origination and servicing expenses for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Employee benefit expenses	229,030	287,952	301,794
Loan servicing expenses	23,511	45,976	217,185
Office rental expenses	24,341	32,331	34,386
Other expenses	35,336	44,736	54,249
Total	**312,218**	**410,995**	**607,614**

Our origination and servicing expenses are primarily comprised of (i) employee benefit expenses for loan origination, loan servicing, and credit policy management personnel, (ii) loan servicing expenses such as trust plan administration fees, funding administration fees, online traffic redirection fees, credit record access charges, and third-party loan servicing vendor charges, and

(iii) office rental expenses of our regional offices and offline outlets. For 2015, 2016, and 2017, our origination and servicing expenses were RMB312.2 million, RMB411.0 million, and RMB607.6 million, respectively.

Sales and marketing expenses

The following table sets forth a breakdown of our sales and marketing expenses for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Marketing and advertising fees	14,206	55,057	55,326
Employee benefit expenses	3,092	5,480	9,231
Other expenses	1,666	1,284	4,406
Total	**18,964**	**61,821**	**68,963**

Our sales and marketing expenses are primarily comprised of (i) marketing and advertising fees to promote our credit products and branding and (ii) employee benefit expenses (excluding commissions) for sales and marketing personnel. For 2015, 2016, and 2017, our sales and marketing expenses were RMB19.0 million, RMB61.8 million, and RMB69.0 million, respectively.

General and administrative expenses

The following table sets forth a breakdown of our general and administrative expenses for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Employee benefit expenses	51,033	81,418	107,508
Taxes and surcharges	24,592	44,862	12,343
Professional service fees	2,779	19,006	31,712
Office rental and expenses	10,256	10,309	14,062
Other expenses	13,103	7,765	16,122
Total	**101,763**	**163,360**	**181,747**

Our general and administrative expenses are primarily comprised of (i) employee benefit expenses for management personnel, (ii) taxes and surcharges levied on our headquarters' operations, (iii) professional service fees primarily in connection with the issuance of Preferred Shares and legal collection actions, and (iv) office rental and expenses of our headquarters in respect of our administrative function. For 2015, 2016, and 2017, our general and administrative expenses were RMB101.8 million, RMB163.4 million, and RMB181.7 million, respectively.

Research and development expenses

The following table sets forth a breakdown of our research and development expenses for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Employee benefit expenses	11,314	24,528	55,242
Office rental expenses	1,451	2,019	8,656
Consulting service fees	98	859	1,719
Others expenses	1,790	2,626	8,762
Total	**14,653**	**30,032**	**74,379**

Our research and development expenses are primarily comprised of (i) employee benefit expenses for research and development personnel, and (ii) office rental and expenses for research and development office and data center space. For 2015, 2016, and 2017, our research and development expenses were RMB14.7 million, RMB30.0 million, and RMB74.4 million, respectively.

Impairment losses

The following table sets forth a breakdown of our impairment losses for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Loans to customers	735,932	994,580	1,397,199
Contract assets	228	4,669	11,872
Guarantee receivables	113	1,006	3,562
Other assets	1,282	2,134	4,806
Total	**737,555**	**1,002,389**	**1,417,439**

Our impairment losses are primarily comprised of losses from impairment of loans to customers originated by us through trust lending and direct lending structures. For 2015, 2016, and 2017, our impairment losses were RMB737.6 million, RMB1.00 billion, and RMB1.42 billion, respectively. For further details of our impairment loss on loans to customers, see the section headed "—Critical Accounting Policies, Judgments, and Estimates—Critical Accounting Judgments and Estimates—Impairment Loss on Loans to Customers."

Other losses, net

Our net other losses are primarily comprised of (i) loss on early repayment and (ii) finance cost. We present these losses net of profit from fair value changes on wealth management products. For 2015, 2016, and 2017, our net other losses were RMB30.2 million, RMB114.0 million, and RMB8.8 million, respectively.

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

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Loss on early repayment	(22,421)	(74,221)	(36,738)
Finance cost, net	(7,737)	(39,750)	27,353
Gain from fair value changes	—	—	545
Other losses, net	**(30,158)**	**(113,971)**	**(8,840)**

Loss on early repayment

Our loss on early repayment represents our loss resulting from the difference between actual early repayments and the carrying amount for early repayments. For 2015, 2016, and 2017, our loss on early repayment was RMB22.4 million, RMB74.2 million, and RMB36.7 million, respectively.

Finance cost

The following table sets forth a breakdown of our finance cost for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Foreign exchange (losses)/gains	(8,166)	(39,601)	25,460
Bank interest income	718	921	2,664
Bank charges	(289)	(1,070)	(771)
Total	**(7,737)**	**(39,750)**	**27,353**

Our finance cost represents the sum of foreign exchange (losses)/gains in connection with our foreign-currency denominated borrowings, interest income from our bank deposits, and bank charges incurred during our operating activities. For 2015 and 2016, our finance cost was RMB7.7 million and RMB39.8 million, respectively. For 2017, we recorded a gain of RMB27.4 million.

Operating (loss) / profit

For 2015 and 2016, we incurred operating loss of RMB152.4 million and RMB349.8 million, respectively. For 2017, we recorded operating profit of RMB347.4 million, and our operating profit margin was 12.8%.

Share of net loss of associates accounted for using the equity method

Our share of net loss of associates accounted for using the equity method represents our Group's share of loss of associates that we invested in in accordance with the equity method. In June 2016, we invested in 40% of shares of Apass Holdings Company Limited, which is a holding company that controls a PRC operational company providing data development services. For 2015, 2016, and 2017, our share of net loss of associates accounted for using the equity method was nil, RMB0.7 million, and RMB6.4 million, respectively.

Fair value loss of Preferred Shares

Fair value loss of Preferred Shares represents changes in fair value of the Preferred Shares issued by us, and is the difference between ending and beginning balances of our Preferred Shares on our consolidated statements of financial position. We used the discounted cash flow method to determine the underlying share value of our Group and adopted the equity allocation method to determine the fair value of our Preferred Shares as of the dates of issuance and at the end of each reporting period. For 2015, 2016, and 2017, our fair value loss of Preferred Shares was RMB146.6 million, RMB270.5 million, and RMB1.29 billion, respectively. This loss increased significantly in 2017. See the section headed "—Period to Period Comparison of Results of Operations—Year Ended December 31, 2017 Compared to Year Ended December 31, 2016—Fair value loss of Preferred Shares." For a discussion of key assumptions of the valuation of Preferred Shares during the Track Record Period, see the section headed "Accountant's Report—Notes to the Historical Financial Information—Preferred Shares" in Appendix I. On the Listing Date, all our Preferred Shares will be automatically converted into our Shares. The fair value of each preferred share will then be equivalent to the fair value of each of our Shares on the conversion date, which will be the Offer Price in the Global Offering.

We designate the Preferred Shares as financial liabilities at fair value through profit and loss. Any changes in the fair value of the Preferred Shares are recorded as "fair value loss of convertible redeemable preferred shares" in our consolidated statements of comprehensive loss.

Loss for the year and adjusted net (loss)/profit

For 2015, 2016 and 2017, we incurred net loss of RMB303.1 million, RMB565.1 million, and RMB1.00 billion, respectively. For 2015 and 2016, we incurred adjusted net loss of RMB155.3 million and RMB275.1 million, respectively. For 2017, we had adjusted net profit of RMB292.5 million, and our adjusted net profit margin was 10.8%. For further details, see the section headed "—Non-IFRS Measures."

TAXATION

British Virgin Islands

Under the laws of the BVI, we are not subject to any tax on income or capital gains.

Cayman Islands

Under the laws of the Cayman Islands, we are not subject to any tax on income or capital gains.

Hong Kong

Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

China

Under the PRC Enterprise Income Tax Law, our PRC subsidiaries are subject to income tax at the statutory rate of 25% and may enjoy preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy. Companies qualified as high- and new-technology enterprises enjoy a preferential enterprise income tax rate of 15% for three years and can apply for renewal of the high- and new-technology enterprise status. One of our PRC subsidiaries, VC Financial Technology, was qualified as a high- and new-technology enterprise in Shanghai and thus enjoyed the preferential income tax rate of 15% from 2015 to 2017. In November 2017, VC Financial Technology was further approved as a high- and new-technology enterprise, and will continue to enjoy the preferential income tax rate of 15% from 2018 to 2020.

The income tax on our Group's profit or loss before income tax differs from the theoretical amount that would apply using the statutory income tax rate applicable to the profit or loss of the consolidated entities. The following table sets forth the detailed calculation.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Loss before income tax	**(298,972)**	**(621,043)**	**(944,464)**
Tax calculated at PRC statutory income tax rate of 25%	(74,743)	(155,261)	(236,116)
—Tax effects of different income tax rates applicable to group companies	76,097	223,233	184,096
Tax calculated at income tax rate of each entity	**1,354**	**67,972**	**(52,020)**
Other tax effect of:			
—Expenses not deductible for income tax purpose	(2,235)	(5,652)	(9,540)
—Super deduction for research and development expenses	613	2,476	4,762
—Utilization of previously unrecognized tax losses	241	301	1,838
—No recognition of deferred tax assets on tax losses	(4,144)	(9,104)	(3,709)
Income tax credit / (expenses)	**(4,171)**	**55,993**	**(58,669)**

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared from China to foreign investors. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors. During the Track Record Period, we did not have any plan to require our PRC subsidiaries to distribute their retained earnings and intended to retain them to operate and expand our business in China.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Total income

Our total income increased by 88.9% from RMB1.43 billion for 2016 to RMB2.71 billion for 2017. This increase was primarily due to the significant increase in our loan origination volume after our successful transformation into an online consumer finance business. In particular, the loan origination volume of our credit card balance transfer products increased significantly from RMB3.41 billion in 2016 to RMB14.17 billion in 2017, and the loan origination volume of our consumption credit products increased significantly from RMB1.48 billion in 2016 to RMB7.86 billion in 2017.

Our interest income increased by 88.8% from RMB1.72 billion for 2016 to RMB3.25 billion for 2017. While our loan origination volume increased by 211.8% from 2016 to 2017, our interest income only increased by 88.8% due to (i) the significant increase in our loan origination volume through our credit-enhanced loan facilitation structure (under which income is booked as loan facilitation service fees), and (ii) the fact that our loan origination volume in 2017 was driven by the significant growth of credit card balance transfer products and consumption credit products, both of which have relatively shorter average terms and higher early repayment rates. Our interest expenses increased significantly from RMB441.2 million for 2016 to RMB918.2 million for 2017. As a result, our net interest income increased by 82.1% from RMB1.28 billion for 2016 to RMB2.34 billion for 2017.

Our loan facilitation service fees increased by 52.5% from RMB55.0 million for 2016 to RMB83.9 million in 2017. This increase was primarily due to the significant increase in our loan origination volume through our credit-enhanced loan facilitation structure.

Our other income increased significantly from RMB94.9 million for 2016 to RMB286.2 million for 2017. This increase was primarily due to (i) an increase in loan origination through our trust lending and credit-enhanced loan facilitation structures, (ii) an increase in overdue charges resulting from our enhanced efforts in collecting our charges on delinquent borrowers, (iii) an increase in gains from guarantees resulting from our credit-enhanced loan facilitation, and (iv) the growth of our value-added services based on our *Hummingbird* system in 2017.

Origination and servicing expenses

Our origination and servicing expenses increased by 47.8% from RMB411.0 million for 2016 to RMB607.6 million for 2017, primarily due to an increase of RMB171.2 million in loan servicing expenses resulting from the growth of loan origination volume.

Sales and marketing expenses

Our sales and marketing expenses increased by 11.6% from RMB61.8 million for 2016 to RMB69.0 million for 2017, primarily due to an increase of RMB3.8 million in employee benefit expenses as a result of the headcount increase.

General and administrative expenses

Our general and administrative expenses increased by 11.3% from RMB163.4 million for 2016 to RMB181.7 million for 2017, primarily due to (i) an increase of RMB26.1 million in employee benefit expenses for management personnel at our headquarters and (ii) an increase of RMB12.7 million in professional service fees. These factors were partially offset by an RMB32.5 million decrease of tax and surcharges due to the transition from business tax to value-added-tax.

Research and development expenses

Our research and development expenses increased significantly from RMB30.0 million for 2016 to RMB74.4 million for 2017, primarily due to an increase of RMB30.7 million in employee benefit expenses to attract and retain research and development personnel.

Impairment losses

Our impairment losses increased by 41.4% from RMB1.00 billion for 2016 to RMB1.42 billion for 2017, primarily due to an RMB402.6 million increase in impairment losses on our loans to customers in connection with our trust lending and direct lending structures.

Other losses, net

Our net other losses decreased significantly from RMB114.0 million for 2016 to RMB8.8 million for 2017, primarily because our foreign exchange losses of RMB39.6 million in 2016 reversed to gains of RMB25.5 million in 2017, as well as due to a decrease of RMB37.5 million in loss on early repayment.

Operating profit / (loss)

As a result of the foregoing, we recorded an operating profit of RMB347.4 million for 2017, compared to an operating loss of RMB349.8 million for 2016.

Share of net loss of associates accounted for using the equity method

Our share of net loss of associates accounted for using the equity method increased significantly from RMB0.7 million for 2016 to RMB6.4 million for 2017, which was due to the net loss of Apass Holdings Company Limited.

Fair value loss of Preferred Shares

Fair value loss of Preferred Shares for 2016 and 2017 was RMB270.5 million and RMB1.29 billion, respectively. This significant increase in fair value loss of Preferred Shares was because the valuation of our Company increased in light of our results of operations and because we were approaching our initial public offering, with these factors substantially increasing the fair value of the Preferred Shares.

Loss before income tax

As a result of the foregoing, we recorded a loss before income tax of RMB621.0 million and RMB944.5 million for 2016 and 2017, respectively.

Income tax credit / (expenses)

We incurred income tax expenses of RMB58.7 million for 2017, as compared to income tax credit of RMB56.0 million for 2016, primarily due to (i) the higher taxable income of our PRC subsidiaries subject to income tax in 2017 and (ii) our fair value loss of Preferred Shares that is subject to zero tax rate.

Loss for the year

As a result of the foregoing, we recorded a loss of RMB565.1 million and RMB1.00 billion for 2016 and 2017, respectively.

Adjusted net (loss)/profit

We had adjusted net profit of RMB292.5 million and adjusted net profit margin of 10.8% for 2017, as compared to the adjusted net loss of RMB275.1 million for 2016. For a discussion of our non-IFRS measures, see the section headed "—Non-IFRS Measures."

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Total income

Our total income increased by 34.8% from RMB1.06 billion for 2015 to RMB1.43 billion for 2016. This increase was primarily due to our significant growth of loan origination volume through the trust lending structure. The loan origination volume of our credit card balance transfer products increased significantly from RMB178.5 million in 2015 to RMB3.41 billion in 2016, and the loan origination volume of our consumption credit products increased significantly from RMB63.6 million in 2015 to RMB1.48 billion in 2016.

While our loan origination volume increased by 122.9% from 2015 to 2016, our interest income only increased by 33.5%, primarily due to (i) the significant increase in our loan origination volume through our credit-enhanced loan facilitation structure (under which income is booked as loan facilitation service fees), and (ii) the fact that our loan origination volume in 2016 was driven by the significant growth of credit card balance transfer products and consumption credit products, both of which have relatively shorter average terms and higher early repayment rates. Our interest expenses increased by 47.0% from RMB300.2 million for 2015 to RMB441.2 million for 2016. As a result, our net interest income increased by 29.4% from RMB991.4 million for 2015 to RMB1.28 billion for 2016.

Our loan facilitation service fees increased 58.2% from RMB34.8 million for 2015 to RMB55.0 million in 2016. This increase was primarily due to the growth of our loan origination volume in 2016.

Our other income increased significantly from RMB36.7 million for 2015 to RMB94.9 million for 2016. This increase was primarily due to an increase in loan origination volume through the trust lending structure, credit-enhanced loan facilitation structure and the corresponding increase in overdue charges in 2016.

Origination and servicing expenses

Our origination and servicing expenses increased by 31.6% from RMB312.2 million for 2015 to RMB411.0 million for 2016, primarily due to an increase of RMB58.9 million in employee benefit expenses for loan origination, loan servicing, and credit policy management personnel resulting from the headcount increase, as well as an RMB22.5 million increase in loan servicing expenses.

Sales and marketing expenses

Our sales and marketing expenses increased significantly from RMB19.0 million for 2015 to RMB61.8 million for 2016, primarily due to an increase of RMB40.9 million in marketing and advertising fees to promote our credit card balance transfer products, consumption credit products and branding.

General and administrative expenses

Our general and administrative expenses increased by 60.5% from RMB101.8 million for 2015 to RMB163.4 million for 2016, primarily due to (i) an increase of RMB30.4 million in employee benefit expenses for management personnel at our headquarters and (ii) an increase of RMB20.3 million in tax and surcharges primarily due to the expansion of our business.

Research and development expenses

Our research and development expenses increased significantly from RMB14.7 million for 2015 to RMB30.0 million for 2016, primarily due to an increase of RMB13.2 million in employee benefit expenses to attract and retain research and development personnel.

Impairment losses

Our impairment losses increased by 35.9% from RMB737.6 million for 2015 to RMB1.00 billion for 2016, primarily due to an RMB258.6 million increase in impairment losses on our loans to customers in connection with our trust lending and direct lending structures.

Other losses, net

Our net other losses increased significantly from RMB30.2 million for 2015 to RMB114.0 million for 2016, primarily due to (i) an increase of RMB51.8 million in loss on early repayment in connection with the growth of our loan origination volume and higher early repayment rate and (ii) an increase of RMB31.4 million in foreign exchange losses.

Operating loss

As a result of the foregoing, we recorded an operating loss of RMB152.4 million and RMB349.8 million for 2015 and 2016, respectively.

Share of net loss of associates accounted for using the equity method

Our share of net loss of associates accounted for using the equity method was RMB0.7 million for 2016, compared to nil for 2015, because in June 2016 we invested in 40.0% of the shares of Apass Holdings Company Limited, which recorded net loss in 2016.

Fair value loss of Preferred Shares

Fair value loss of Preferred Shares increased from RMB146.6 million for 2015 and to RMB270.5 million for 2016, primarily because of the higher valuation of our Company.

Loss before income tax

As a result of the foregoing, we recorded a loss before income tax of RMB299.0 million and RMB621.0 million for 2015 and 2016, respectively.

Income tax credit/(expenses)

We had income tax expense of RMB4.2 million in 2015 and income tax credit of RMB56.0 million in 2016, respectively, primarily because our PRC subsidiaries experienced higher loss in 2016.

Loss for the year

As a result of the foregoing, we recorded a loss of RMB303.1 million and RMB565.1 million for 2015 and 2016, respectively.

Adjusted net loss

We had adjusted net loss of RMB275.1 million for 2016, as compared to the adjusted net loss of RMB155.3 million for 2015. For a discussion of our non-IFRS measures, see the section headed "— Non-IFRS Measures."

DISCUSSION OF CERTAIN LINE ITEMS ON THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth line items from our consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2015	2016	2017
		RMB'000	
Assets			
Cash and cash equivalents	200,202	289,889	568,196
Restricted cash	7,569	91,945	143,570
Loans to customers	3,808,254	6,219,122	11,479,696
Contract assets	30,080	60,603	98,845
Guarantee receivables	7,997	23,681	130,073
Financial assets at fair value through profit or loss	—	—	110,545
Investments accounted for using the equity method	—	17,152	30,784
Deferred income tax assets	73,947	193,042	279,860
Intangible assets	8,618	11,737	13,488
Property and equipment	44,946	40,929	74,355
Other assets	59,970	183,757	507,596
Total assets	**4,241,583**	**7,131,857**	**13,437,008**
Liabilities			
Borrowings	3,239,535	5,898,439	11,063,133
Guarantee liabilities	8,680	31,276	169,553
Tax payable	13,921	75,351	108,338
Deferred income tax liabilities	43,071	74,954	122,314
Preferred Shares	838,798	1,560,194	3,042,173
Other liabilities	267,465	301,195	440,107
Total liabilities	**4,411,470**	**7,941,409**	**14,945,618**
Deficit			
Share capital	257,985	257,985	394,462
Reserves	(32,032)	(106,647)	60,951
Accumulated deficits	(395,840)	(960,890)	(1,964,023)
Total deficit(1)	**(169,887)**	**(809,552)**	**(1,508,610)**
Total liabilities and deficit	**4,241,583**	**7,131,857**	**13,437,008**
Non-IFRS Measure			
Adjusted total equity (unaudited)(2)	668,911	750,642	1,533,563

Notes:

(1) The adoption of IFRS 9 is expected to increase our net deficit as of January 1, 2018 by approximately RMB214 million on an after-tax basis. For more details, see the section headed "Risk Factors—Risks Relating to Our Business and Industry—Changes in accounting standards may make it difficult to compare our results of operations."

(2) We define adjusted total equity by adding back Preferred Shares as if the Preferred Shares had been converted into ordinary shares at each reporting date. Adjusted total equity is not a measure required by, or presented in accordance with, IFRS. The use of adjusted total equity has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. For further details, see the section headed "—Non-IFRS Measures."

The following discussion compares certain key line items on our consolidated statements of financial position as of December 31, 2015, 2016, and 2017.

Assets

The principal components of our assets are (i) loans to customers, (ii) cash and cash equivalents, (iii) restricted cash, (iv) contract assets, and (v) guarantee receivables, which collectively represented 95.6%, 93.7%, and 92.4% of our total assets as of December 31, 2015, 2016, and 2017, respectively.

Loans to customers

Our loans to customers primarily represent the total net balance of loans originated by us through our trust lending and direct lending structures.

The following table sets forth a breakdown of our loans to customers as of the dates indicated.

	As of December 31,		
	2015	2016	2017
Loans to customers, gross	4,563,555	7,356,283	13,276,407
Less: impairment allowances	(755,301)	(1,137,161)	(1,796,711)
Loans to customers, net	**3,808,254**	**6,219,122**	**11,479,696**

As of December 31, 2015, 2016, and 2017, our net loans to customers were RMB3.81 billion, RMB6.22 billion, and RMB11.48 billion, respectively, representing a CAGR of 73.6%. This increase was primarily due to the increase of loans originated by us through our trust lending structure.

During the Track Record Period, our gross loans to customers originated through our trust lending structure increased significantly and constituted a significant majority of our gross loans to customers. As of December 31, 2015, 2016, and 2017, our gross balance of loans to customers originated through our trust lending structure were RMB4.16 billion, RMB6.87 billion, and RMB12.71 billion, respectively, representing a CAGR of 74.8%.

The following table sets forth a breakdown of the gross balance of loans to customers by product line as of the dates indicated:

	As of December 31,					
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Balance of Loans to Customers						
Credit Card Balance Transfer Products	143,070	3.1%	1,989,247	27.0%	5,296,951	39.9%
Consumption Credit Products	39,622	0.9%	828,888	11.3%	3,866,461	29.1%
Online-to-Offline Credit Products	4,380,863	96.0%	4,538,148	61.7%	4,112,995	31.0%
Total	**4,563,555**	**100.0%**	**7,356,283**	**100.0%**	**13,276,407**	**100.0%**

The following table sets forth a breakdown of our gross balance of loans to customers by our funding structure as of the dates indicated.

	As of December 31,		
	2015	2016	2017
		RMB'000	
Trust Lending	4,162,889	6,867,942	12,715,563
—Trust Plans	4,162,889	6,850,550	12,714,436
—Asset Management Plans	—	17,392	1,127
Direct Lending	400,666	488,341	560,844
Loans to customers, gross	**4,563,555**	**7,356,283**	**13,276,407**

(a) Asset Quality Information

The following table sets forth certain asset quality information of our gross loans to customers as of the dates or for the periods indicated.

	As of December 31,					
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Not delinquent	3,802,886	83.3%	6,425,585	87.3%	10,946,244	82.4%
Delinquent						
Up to 3 months	282,866	6.2%	342,913	4.7%	1,180,143	8.9%
More than 3 months, up to 12 months	477,803	10.5%	587,785	8.0%	1,150,020	8.7%
Loans to customers, gross	**4,563,555**	**100.0%**	**7,356,283**	**100.0%**	**13,276,407**	**100.0%**

	For the Year Ended December 31,		
	2015	2016	2017
Impairment Allowance Ratio(1)	16.6%	15.5%	13.5%
M1+ Delinquency Ratio(2)	14.0%	10.6%	12.5%
M3+ Delinquency Ratio(3)	10.5%	8.0%	8.7%

Notes:

(1) Calculated by dividing ending balance of impairment allowance on loans to customers by the ending balance of gross loans to customers.

(2) Defined as the percentage of loans to customers that are delinquent for more than 1 month and up to 12 months and calculated by dividing loans to customers that are delinquent for more than 1 month and up to 12 months by the ending balance of gross loans to customers.

(3) Defined as the percentage of loans to customers that are delinquent for more than 3 months and up to 12 months and calculated by dividing loans to customers that are delinquent for more than 3 months and up to 12 months by the ending balance of gross loans to customers.

(b) Additional Information

The following table sets forth certain additional information of our loans to customers for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
Net Interest Margin(1)	25.7%	21.5%	22.6%
Net Interest Spread(2)	21.8%	19.3%	20.7%
Cost-to-Income Ratio(3)	42.1%	46.5%	34.5%

Notes:

(1) Calculated by dividing net interest income by the average balance of gross loans to customers at the beginning and the end of the year.

(2) Calculated by dividing interest income by the average balance of gross loans to customers at the beginning and the end of the year, *minus* the product of dividing interest expenses by the average balance of borrowings at the beginning and the end of the year.

(3) Calculated by dividing the sum of origination and servicing expenses, sales and marketing expenses, general and administrative expenses, and research and development expenses by total income.

The following table sets forth the movement of impairment loss of loans to customers for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Impairment loss movement			
Beginning balance	586,569	755,301	1,137,161
Addition	735,932	994,580	1,397,199
Unwinding of discount on allowances	(25,759)	(35,595)	(19,177)
Write-offs	(541,441)	(598,900)	(742,879)
Recoveries of loan write-off in previous years	—	21,775	24,407
Ending balance	**755,301**	**1,137,161**	**1,796,711**

Cash and cash equivalents

As of December 31, 2015, 2016, and 2017, our cash and cash equivalents were RMB200.2 million, RMB289.9 million, and RMB568.2 million, respectively, representing a CAGR of 68.5%. This increase was primarily due to the significant increase in our financing activities, including (i) our issuance of our Preferred Shares, and (ii) a net increase in the senior tranche of trust plans in connection with increases in the volume of loans originated through our trust lending structure.

Restricted cash

Our restricted cash represents the cash pledged in designated bank accounts that are constrained by the contracts between banks and us. As of December 31, 2015, 2016, and 2017, our restricted cash was RMB7.6 million, RMB91.9 million, and RMB143.6 million, representing a CAGR of 335.5%. This significant increase was primarily due to our introduction and growth of loan origination through the credit-enhanced loan facilitation structure.

Contract assets

Our contract assets represent the difference between cash received and the portion of our loan facilitation service fees allocated to loan origination services with respect to our loans originated through our credit-enhanced loan facilitation and pure loan facilitation services, when the former is lower than the latter.

The following table sets forth a breakdown of our contract assets as of the dates indicated.

	As of December 31,		
	2015	2016	2017
		RMB'000	
Contract assets, gross	30,308	64,584	108,791
Less: Impairment allowances	(228)	(3,981)	(9,946)
Contract assets	**30,080**	**60,603**	**98,845**

Our contract assets increased significantly from RMB30.1 million as of December 31, 2015 to RMB60.6 million as of December 31, 2016 and further increased by 63.1% to RMB98.8 million as of December 31, 2017, primarily due to the significant increase in the loans originated by us through our credit-enhanced loan facilitation structure in 2017.

Guarantee receivables

Our guarantee receivables represent the amounts collectible by us under loan guarantees with respect to loans originated by us through our credit-enhanced loan facilitation structure. Our guarantee receivables increased significantly from RMB8.0 million as of December 31, 2015 to RMB23.7 million as of December 31, 2016 and further to RMB130.1 million as of December 31, 2017. These increases were due to the growth of our credit-enhanced loan facilitation structure in 2016 and its further significant growth in 2017.

Liabilities

The principal components of our liabilities are borrowings and Preferred Shares, which collectively represented 92.4%, 93.9%, and 94.4% of our total liabilities as of December 31, 2015, 2016, and 2017, respectively. For further details, see the section headed "—Indebtedness."

Guarantee liabilities

Our guarantee liabilities represent the potential guarantee exposure with respect to our credit-enhanced loan facilitation structure, after taking into account the gains from guarantees and net payouts made during the year. Our guarantee liabilities increased significantly from RMB8.7 million as of December 31, 2015 to RMB31.3 million as of December 31, 2016 and further to RMB169.6 million as of December 31, 2017, primarily due to the growth of loans originated through our credit-enhanced loan facilitation structure.

INDEBTEDNESS

Borrowings

Our total borrowings, as recorded on our consolidated statements of financial position, comprise (i) payables to senior tranche holders of trust plans and asset management plans, (ii) borrowings from corporations, (iii) borrowings from individuals, and (iv) bank borrowings. We had not experienced any difficulties in obtaining borrowings or credit facilities from banks during the Track Record Period and up to the Latest Practicable Date.

The following table sets forth a breakdown of our borrowings by nature as of the dates indicated.

	As of December 31,			As of April 30, 2018
	2015	2016	2017	
	RMB'000			
				(unaudited)
Payables to senior tranche holders of trust plans and asset management plans	2,668,570	4,831,350	9,411,228	8,056,477
Borrowings from corporations	185,667	512,530	1,109,440	1,121,611
Borrowings from individuals	381,044	456,440	540,532	455,930
Bank borrowings	4,254	98,119	1,933	1,623
Total borrowings	**3,239,535**	**5,898,439**	**11,063,133**	**9,635,641**

Most of our borrowings are denominated in Renminbi, primarily because a significant amount of our payables to senior tranche holders of trust plans and holders of asset management plans are denominated in Renminbi. Other than our payables to senior tranche holders of trust plans and holders of asset management plans, most of our other borrowings are denominated in Hong Kong dollars.

The following table sets forth a breakdown of our borrowings by currency denomination as of the dates indicated.

	As of December 31,			As of April 30,
	2015	2016	2017	2018
	RMB'000			
				(unaudited)
Denominated in Renminbi	2,773,824	5,115,469	10,245,161	8,869,300
Denominated in HK dollars	384,541	706,663	801,636	750,493
Denominated in U.S. dollars	81,170	76,307	16,336	15,848
Total borrowings	**3,239,535**	**5,898,439**	**11,063,133**	**9,635,641**

The following table sets forth the maturity profile of our borrowings within the periods indicated.

	As of December 31,			As of April 30,
	2015	2016	2017	2018
	RMB'000			
				(unaudited)
Up to 1 year	2,449,061	3,685,533	5,376,867	7,414,348
1 year or more, up to 2 years	726,220	2,149,780	5,684,333	2,221,293
2 years or more, up to 5 years	64,254	63,126	1,933	—
Total borrowings	**3,239,535**	**5,898,439**	**11,063,133**	**9,635,641**

Payables to senior tranche holders of trust plans and asset management plans

Our payables to senior tranche holders of trust plans and asset management plans constitute our payables under the loans originated by us through the trust lending structure. These loans are granted by the trust plans and asset management plans administered by PRC trust companies, and these trust plans and asset management plans have regular payment obligations to the senior tranche holders of the trust plans and asset management plans. Because we have consolidated the assets, liabilities, results of operations, and cash flows of these trust plans and asset management plans from an accounting perspective, we book payables to senior tranche holders of trust plans and asset management plans on our consolidated statements of financial position. For further details, see the section headed "Accountant's Report—Notes to the Historical Financial Information—Summary of Significant Accounting Policies—Subsidiaries—Consolidation" in Appendix I. Without taking our loan guarantees into account, our payables to senior tranche holders of trust plans and asset management plans are unsecured indebtedness.

The senior tranche holders of trust plans and asset management plans are qualified investors sourced by CBRC-licensed PRC trust companies administering the relevant trust plans and asset management plans in China. These senior tranche holders typically include banks, other financial institutions, corporations and individuals. To our best knowledge, all senior tranche holders of the trust plans and asset management plans under our trust lending structure during the Track Record Period were independent third parties.

The following table sets forth the effective interest rates of our payables to senior tranche holders of trust plans and asset management plans as of the dates indicated.

	As of December 31,			As of April 30,
	2015	2016	2017	2018
	%			
Payables to trust plans and asset management plans				
Effective interest rate range	7.6%—12.5%	7.8%—11.5%	6%—15%	6%—15%
Weighted average interest rate	12.2%	10.9%	10.0%	10.0%

As of December 31, 2015, 2016, and 2017, and April 30, 2018, our payables to senior tranche trust plan holders and asset management plans were RMB2.67 billion, RMB4.83 billion, RMB9.41 billion, and RMB8.06 billion, respectively. This increase during the Track Record Period was due to the significant increase in the loans originated by us through our trust lending structure.

Other borrowings

Our other borrowings refer to our own debt financings, including (i) onshore loans, or loans of our PRC subsidiaries from PRC banks and PRC independent third-party corporations, and (ii) offshore loans, or loans of our Hong Kong subsidiary from individuals and corporations. The corporations and individuals from whom we have borrowed were sourced by us, our financial advisors, or other intermediaries. Some of the individuals from whom we have borrowed are related parties of our Group. For further details on our borrowings from individuals that are related parties of our Group, see the section headed "Accountant's Report—Notes to the Historical Financial Information—Related party transactions—Borrowings with related parties" in Appendix I.

The following table sets forth certain information with respect to our other borrowings as of April 30, 2018.

Sources of Other Borrowings	Relationship with Us
Onshore	
—PRC Bank	Independent Third Party
—Corporations	Independent Third Parties
Offshore	
—Corporations	Independent Third Parties
—Individuals	
● Kwok Lim Ying	Parent of Liu Sai Wang Stephen
● Kwok Peter Viem	Shareholder
● Mok Mei Hing	Spouse of Dong Ludwig, who is a former Director
● Ma Ting Yiu	Brother of Ma Ting Hung
● Others	Independent Third Parties

We have borrowed money from three PRC corporations that are not financial institutions permitted to operate lending business in China, and the aggregate balance of outstanding principal of these loans was RMB750 million as of April 30, 2018. As advised by our PRC Legal Advisor, as a borrower under these loans, our risk of facing government penalties for borrowing from non-financial institutions is remote, and our other payables and borrowings do not conflict with any mandatory PRC laws and regulations.

For details of the borrowings from connected persons that will continue after Listing, see the section headed "Connected Transactions." All borrowings from our Controlling Shareholders will be repaid prior to Listing.

Most of our other borrowings were unsecured during the Track Record Period. As of December 31, 2015, 2016, and 2017, and April 30, 2018, unsecured other borrowings accounted for 99.3%, 93.6%, 99.9%, and 99.9% of our total other borrowings, respectively.

The following table sets forth a breakdown of our other borrowings by security type as of the dates indicated.

	As of December 31,			As of April 30,
	2015	2016	2017	2018
	RMB'000			
				(unaudited)
Secured				
Mortgage borrowings				
Bank borrowings	4,254	3,126	1,933	1,623
Pledged borrowings				
Borrowings from corporations	—	65,000	—	—
Sub-total	4,254	68,126	1,933	1,623
Unsecured				
Borrowings from corporations	185,667	512,530	1,109,440	1,121,611
Borrowings from individuals	381,044	456,440	540,532	455,930
Bank borrowings	—	29,993	—	—
Sub-total	566,711	998,963	1,649,972	1,577,541
Total other borrowings	**570,965**	**1,067,089**	**1,651,905**	**1,579,164**

The interest rates vary among our other borrowings. As of April 30, 2017, the weighted average effective interest rate on our borrowings from corporations, borrowings from private individuals, and bank borrowings was 10.0%, 10.0%, and 6.2%, respectively.

The following table sets forth the ranges of effective interest rates of our other borrowings as of the dates indicated.

	As of December 31,			As of April 30,
	2015	2016	2017	2018
	%			
Other Borrowings				
Borrowings from corporations				
—Effective interest rate range	10.0%–12.0%	10.0%–12.0%	10.0%	10.0%
—Weighted average interest rate	10.6%	10.3%	10.0%	10.0%
Borrowings from individuals				
—Effective interest rate range	10.0%	10.0%	10.0%	10.0%
—Weighted average interest rate	10.0%	10.0%	10.0%	10.0%
Bank Borrowings				
—Effective interest rate range	7.8%	6.1%–9.3%	6.2%	6.2%
—Weighted average interest rate	7.8%	6.9%	7.4%	6.2%

Preferred Shares

We raised an aggregate of approximately RMB1.33 billion in cash from multiple issuances of Preferred Shares to various investors, including approximately RMB692.9 million raised during the Track Record Period. As of the Latest Practicable Date, no conversion of Preferred Shares had taken place. On the Listing Date, all of our Preferred Shares will be automatically converted into our Shares. For a discussion of our issuances of Preferred Shares, see the section headed "History, Development and Corporate Structure—Pre-IPO Investments." As of December 31, 2015, 2016, and 2017, our Preferred Shares had fair values of RMB838.8 million, RMB1.56 billion, RMB3.04 billion, respectively, because the value of our Company increased in light of our results of operations and we were approaching our initial public offering. For further information regarding our Preferred Shares, see the section headed "Appendix I—Accountant's Report—Notes to the Historical Financial Information—Preferred Shares." Since December 31, 2017 and up to the Latest Practicable Date, we have not issued or redeemed any Preferred Shares.

Contingent Liabilities

As of April 30, 2018, we did not have any material contingent liabilities or any litigations or claims of material importance, pending or threatened against any member of our Group. Our Directors confirm that there has not been any material change in the contingent liabilities of our Group since December 31, 2017.

Except as aforesaid and apart from intra-group liabilities, as of April 30, 2018, we did not have any other loans issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges hire purchase commitments, guarantees or other material contingent liabilities.

Our loan agreements contain standard terms and conditions that are customary for commercial bank loans in China. Our loan agreements contain material covenants that, among others, require lenders' consent before our relevant subsidiaries make any mergers, acquisitions, reorganization, divisions, capital reduction, changes of shareholding structure, or equity investment; enter into joint ventures; significantly increase indebtedness; assign material assets or creditor's rights; or apply for bankruptcy or dissolution. Except as aforesaid, our Directors confirm that, as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that our Group did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have funded our cash requirements principally from cash flows from operating activities, issuance of Preferred Shares, borrowings from corporations and individuals, and bank borrowings. As of April 30, 2018, we did not have any unutilized loan facilities from banks as all of our loan facilities from banks were completely drawn down. We had not experienced any difficulties in obtaining borrowings or credit facilities from banks during the Track Record Period and up to the Latest Practicable Date. We have primarily used cash to fund our operations and business expansion. We had cash and cash equivalents and restricted cash of RMB207.8 million, RMB381.8 million, and RMB711.8 million as of December 31, 2015, 2016, and 2017, respectively. We generally deposit our excess cash in interest bearing bank accounts and current accounts.

Cash Flow

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

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Net cash outflow from operating activities	(1,060,816)	(2,479,620)	(4,163,479)
Net cash outflow from investing activities	(29,095)	(37,737)	(190,027)
Net cash inflow from financing activities	1,051,066	2,604,294	4,634,202
Net (decrease)/increase in cash and cash equivalents	(38,845)	86,937	280,696
Cash and cash equivalents at the beginning of the year	238,409	200,202	289,889
Effect of foreign exchange rate changes on cash and cash equivalents	638	2,750	(2,389)
Cash and cash equivalents at the end of the year	**200,202**	**289,889**	**568,196**

Net cash outflow from operating activities

We generate cash from our various credit products and services, primarily including interest income from our loans to customers, loan facilitation service fees, and overdue charges.

For 2017, our net cash outflow from operating activities was RMB4.16 billion, within which RMB4.13 billion was cash used in operating activities and RMB33.0 million was income tax payments. The difference between our loss before income tax of RMB944.5 million and our cash used in operating activities of RMB4.13 billion was primarily due to (i) an increase of RMB6.64 billion in loans to customers, and (ii) an increase of RMB160.1 million in contract assets and guarantee receivables, partially offset by (y) impairment allowances of RMB1.40 billion for loans to customers, (z) an adjustment of RMB1.29 billion in fair value loss of our Preferred Shares. The significant increase in our loans to customers was primarily due to the fast growth of our loans originated through our trust lending structure in 2017. The increase in contract assets and guarantee receivables was due to the increase in our loans originated through our credit-enhanced loan facilitation structure.

For 2016, our net cash outflow from operating activities was RMB2.48 billion, within which RMB2.45 billion was cash used in operating activities and RMB31.8 million was income tax payments. The difference between our loss before income tax of RMB621.0 million and the cash used in operating activities of RMB2.45 billion was primarily due to (i) an increase of RMB3.37 billion in loans to customers, and (ii) an increase of RMB51.9 million in contract assets and guarantee receivables, partially offset by (y) impairment allowances of RMB994.6 million for loans to customers, (z) an adjustment of RMB270.5 million in fair value loss of our Preferred Shares. The significant increase in our loans to customers was primarily due to the fast growth of our loans originated through our trust lending structure in 2016. The increase in contract assets and guarantee receivables was due to the increase in our loans originated through our credit-enhanced loan facilitation structure.

For 2015, our net cash outflow from operating activities was RMB1.06 billion, within which RMB1.05 billion was cash used in operating activities and RMB9.1 million was income tax payments. The difference between our loss before income tax of RMB299.0 million and the cash used in operating activities of RMB1.05 billion was primarily due to an increase of RMB1.97 billion in loans to customers, partially offset by impairment allowances of RMB735.9 million for loans to customers. The increase in our loans to customers was due to fast growth of our loans originated through our trust lending structure in 2015.

Net cash outflow from investing activities

Our expenditures for investing activities were primarily for purchase of property and equipment, expenditures for construction in progress, investment in an associate, and purchase of intangible assets. We also generate cash from disposal of property and equipment.

For 2017, our net cash outflow from investing activities was RMB190.0 million, which was primarily attributable to (i) RMB110.0 million in payments for financial assets designated at fair value through profit or loss related to the wealth management products we invested in, (ii) RMB39.9 million used in payment for property and equipment in connection with our new office building and IT infrastructure, (iii) RMB20.0 million used for the purchase of investments accounted for using the equity method in connection with our investment in unlisted equity interest in Shanghai COSCO Shipping Small Loan Co., Ltd (上海中遠海運小額貸款有限公司), and (iv) RMB14.9 million used in expenditures for construction in progress in connection with leasehold improvement.

For 2016, our net cash outflow from investing activities was RMB37.7 million, which was primarily attributable to (i) RMB17.9 million to purchase an investment in an associate accounted for using the equity method in connection with our investment in Apass Holdings Company Limited, and (ii) RMB12.0 million used in payment for property and equipment in connection with our IT infrastructure.

For 2015, our net cash outflow from investing activities was RMB29.1 million, which was primarily attributable to RMB18.5 million used in payment for property and equipment in connection with our IT infrastructure.

Net cash inflow from financing activities

For 2017, our net cash generated from financing activities was RMB4.63 billion, which was primarily attributable to (i) RMB8.09 billion received from trust plans in connection with our loans originated through our trust lending structure, (ii) RMB1.32 billion received from borrowings, and (iii) RMB332.5 million received from the issuance of our Preferred Shares, partially offset by (x) RMB3.49 billion used in repayment of trust plans and asset management plans in connection with our loans originated through our trust lending structure, (y) RMB891.0 million used in interest expenses, and (z) RMB708.5 million used in repayment of borrowings.

For 2016, our net cash generated from financing activities was RMB2.60 billion, which was primarily attributable to (i) RMB4.67 billion received from trust plans and asset management plans in connection with our loans originated through our trust lending structure, and (ii) RMB807.8 million received from borrowings, partially offset by RMB2.53 billion used in repayment of trust plans and asset management plans in connection with our loans originated through our trust lending structure.

For 2015, our net cash generated from financing activities was RMB1.05 billion, which was primarily attributable to RMB2.40 billion received from trust plans in connection with our loans originated through our trust lending structure, partially offset by RMB1.29 billion used in repayment of trust plans in connection with our loans originated through our trust lending structure.

Working Capital

We intend to finance our working capital with external borrowings, the net proceeds from the Global Offering, and other funds raised from capital markets from time to time. We will closely monitor the level of our working capital, particularly in view of our strategy to continue expanding our product and service offerings and trying to reach more customers.

Our future working capital requirements will depend on a number of factors, including without limitation our operating profit and our ability to secure external borrowings.

WORKING CAPITAL SUFFICIENCY STATEMENT

The Directors are of the opinion that, taking into account the financial resources available to us, including internally generated funds, external borrowings, and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirement, that is, for at least the next 12 months from the expected date of this prospectus.

CAPITAL EXPENDITURES AND INVESTMENT

The following table sets forth a breakdown of our capital expenditures for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
		RMB'000	
Property and equipment	18,500	12,043	39,899
Intangible assets	5,330	5,163	5,229
Construction in progress	5,265	2,631	14,899
Investment in associates	—	17,900	—
Investments accounted for using the equity method	—	—	20,000
Financial Assets at fair value through profit or loss	—	—	110,000
Total	**29,095**	**37,737**	**190,027**

Our historical capital expenditures primarily included expenditures for purchases of financial assets at fair value through profit or loss, expenditures for electronic devices and equipment and expenditures for office decoration. We had funded our capital expenditure requirements during the Track Record Period primarily with issuance of Preferred Shares in private placement, and cash generated from our operating activities.

Our capital expenditure is expected to be RMB50 million for 2018 for further investment in our IT systems and data analytics capabilities. We plan to fund our planned capital expenditure using cash flows generated from our operating activities and the net proceeds received from the Global Offering.

SELECTED FINANCIAL RATIOS

The following table sets forth our selected financial ratios for the years indicated.

	For the Year Ended December 31,		
	2015	2016	2017
Operating Profit Margin(1)	(14.3)%	(24.4)%	12.8%
Adjusted Net Profit Margin(2)	(14.6)%	(19.2)%	10.8%
Adjusted Return on Assets(3)	(4.2)%	(4.8)%	2.8%
Adjusted Return on Equity(4)	(20.6)%	(38.8)%	25.6%

Notes:

(1) Operating profit margin is calculated by dividing operating (loss)/profit for the year by total income for the year.

(2) Adjusted net profit margin is calculated by dividing adjusted net (loss)/profit for the year by total income for the year.

(3) Adjusted return on assets is calculated by dividing adjusted net (loss)/profit for the year by average balance of total assets at the beginning and the end of the year.
(4) Adjusted return on equity is calculated by dividing adjusted net (loss)/profit for the year by the sum of (i) average balance of total shareholders' equity at the beginning and the end of the year and (ii) average fair value of Preferred Shares at the beginning and the end of the year.

Analysis of Selected Financial Ratios

Operating Profit Margin

For both 2015 and 2016, our operating profit margin was negative, because we recorded operating loss for both years. For 2017, we had an operating profit of RMB347.4 million and an operating profit margin of 12.8%, primarily due to the significant growth of our business resulting in an increase in the scale of our business.

Adjusted Net Profit Margin, Adjusted Return on Assets, and Adjusted Return on Equity

For both 2015 and 2016, our adjusted net profit margin, adjusted return on assets, and adjusted return on equity were negative, because we recorded adjusted net loss for both years. For 2017, we had an adjusted net profit of RMB292.5 million, and our adjusted net profit margin, adjusted return on assets, and adjusted return on equity for 2017 were 10.8%, 2.8%, and 25.6%, respectively.

CONTRACTUAL OBLIGATIONS

Operating Lease Commitments

During the Track Record Period, we leased some of our offices under operating lease agreements. A majority of these lease agreements are renewable at the end of the lease at market rates. The following table sets forth our operating lease commitments by lease terms as of the dates indicated.

	As of December 31,		
	2015	2016	2017
		RMB'000	
No later than 1 year	33,889	37,077	48,099
Later than 1 year and no later than 2 years	25,533	25,888	29,869
Later than 2 years	24,208	10,870	6,858
Total	**83,630**	**73,835**	**84,826**

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, the Group does not have any material off-balance sheet commitments or arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

Historically we entered into transactions with our related parties from time to time. Our related parties primarily include our Controlling Shareholders, our current or former Directors, and certain senior management members.

Transactions with Related Parties

During the Track Record Period, we received loans from our Controlling Shareholders to finance our general working capital and business needs. As of December 31, 2015, 2016, and 2017, the balance of principal amount of loans from our Controlling Shareholders was RMB142.8 million, RMB76.3 million, and RMB62.7 million, respectively. All loans from our Controlling Shareholders are unsecured, with an interest rate of 10% per annum. All outstanding loans from our Controlling Shareholders will be repaid prior to the completion of the Global Offering.

During the Track Record Period, our Company guaranteed certain loans of Mr. Liu, our chief executive officer and executive Director. Pursuant to a guarantee agreement dated December 7, 2015, our Company agreed to act as guarantor for a HK$40.0 million loan (plus accrued interest) between Mr. Liu as the borrower and an independent third party as the lender. Pursuant to a deed of release of guarantor dated February 23, 2018, the guarantee provided by our Company was released.

During the Track Record Period, we received loans from other related parties to finance our general working capital and business needs. As of December 31, 2015, 2016, and 2017, the balance of principal amount of our borrowings from our related parties (including our Controlling Shareholders) were RMB269.8 million, RMB308.9 million, and RMB453.0 million, respectively. All loans from our related parties are unsecured with an interest rate of 10% per annum.

Save for the transactions with connected parties disclosed in the section headed "Connected Transactions," we will repay all outstanding loans and release all guarantees between our Group and our connected parties prior to the completion of the Global Offering.

Amount Due from Related Parties

As of December 31, 2015, 2016, and 2017, the amount due from our related parties, which was of non-trade nature, was RMB1.5 million, RMB1.5 million, and RMB142.5 million, respectively.

Amount Due to Related Parties

As of December 31, 2015, 2016, and 2017, the amount due to our related parties, which was of non-trade nature, was RMB6.0 million, RMB4.8 million, and RMB2.4 million, respectively.

Our Directors confirm that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks: credit risk, liquidity risk, and market risk (including foreign exchange rate risk and interest rate risk). We regularly monitor our exposure to these risks focusing on the unpredictability of financial markets and seek to minimize potential adverse effects on our financial performance. As of the Latest Practicable Date, we did not hedge or consider it was necessary to hedge any of these risks.

Credit Risk

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to us. Leveraging our proprietary *Hummingbird* system and our extensive experience in China's consumer finance market, we have developed a comprehensive credit assessment system that is tailored to our business. We are exposed to credit risk in relation to our cash and cash equivalents, restricted cash, guarantee receivables, loans to customers, financial assets designated at fair value through profit or loss and other financial assets.

To manage credit risk arising from cash and cash equivalents, restricted cash and financial assets at fair value through profit or loss, we only transact with state-owned or reputable financial institutions in China and reputable international financial institutions outside China. There has been no recent history of default in relation to these financial institutions.

We have formulated a set of credit risk management procedures and internal control measures to manage the credit risk exposure of our business. For further details of our credit risk management procedures, see the section headed "Risk Management—Credit Risk Management." Risk arising from financing guarantees is similar to that arising from loans. Transactions of financing guarantees is subject to the same portfolio management and the same requirements for application as loans to customers.

For other assets, our management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records and our past experience. Our Directors believe that credit risk inherent in our outstanding balance of other receivables has been appropriately provided.

For a discussion of our credit risk analysis, see the section headed "Accountant's Report—Notes to the Historical Financial Information—Financial risk management—Financial risk factors—Credit risk."

Liquidity Risk

Liquidity risk is the risk of not having access to sufficient funds or being unable to liquidate a position in a timely manner at a reasonable price to meet our obligations as they become due. The liquidity of our assets will affect our ability to pay debts as they become due. We perform cash flow predictions and monitor both short-term and long-term funding needs, in order to maintain sufficient reserves of cash and marketable securities available at any time.

For a discussion of our liquidity risk analysis, see the section headed "Accountant's Report—Notes to the Historical Financial Information—Financial risk management—Financial risk factors—Liquidity risk."

Market Risk—Foreign Exchange Rate Risk

The transactions of our Company are denominated and settled in its functional currency, U.S. dollars, which is also the functional currency of our subsidiary in Hong Kong. Renminbi is the functional currency of our subsidiaries in China. As the major operations of our Group during the Track Record Period were within China, we present our Historical Financial Information in Renminbi. All resulting exchange differences were recognized in our consolidated statements of comprehensive income as "exchange difference on translation of financial statements" when the results and financial position of our Company and our Hong Kong subsidiary were translated into Renminbi, the presentation currency. Our subsidiaries primarily operate in China and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars and Hong Kong dollars. Therefore, foreign exchange risk primarily arose from borrowings in our Hong Kong subsidiary when receiving or to receive foreign currencies from overseas lenders.

The table below illustrates the impact of an appreciation or depreciation of Renminbi spot and forward rates against Hong Kong dollars and U.S. dollars by 5% on our Group's net profit.

	Expected changes in net profit/(loss)		
	As at December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
5% appreciation of RMB	18,697	29,790	33,970
5% depreciation of RMB	(18,697)	(29,790)	(33,970)

In performing the sensitivity analysis detailed above, we adopted the following assumptions when determining business conditions and financial index:

- Analysis is based on static gap on reporting date, regardless of subsequent changes;
- No consideration of impact on the customers' behavior resulted from interest rate changes;
- No consideration of impact on market price resulted from interest rate changes; and
- No consideration of actions taken by us.

For a discussion of our foreign exchange rate risk analysis, see the section headed "Accountant's Report—Notes to the Historical Financial Information—Financial risk management—Financial risk factors—Market risk—Foreign exchange risk."

Market Risk—Interest Rate Risk

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavorable fluctuations that impact our overall profitability and fair value, resulting in losses to us. The key determinants of our interest rate risk arise from mismatches between the maturity periods of our assets and liabilities, and inconsistent pricing basis, resulting in repricing risk and basis risk.

Our financial department and risk management department jointly monitor and manage our interest rate risk.

We perform interest rate sensitivity analysis on our profit by measuring the impact of a change in profit of financial assets and liabilities. On an assumption of a parallel shift of 25 basis points in Renminbi, U.S. dollar, and Hong Kong dollar interest rates, we calculate the changes in profit for the year on a monthly basis.

The table below illustrates the impact to the net profit or loss for the coming year based on the structure of interest-bearing assets and liabilities as of December 31, 2015, 2016, and 2017, caused by a parallel shift of 25 basis points of Renminbi, U.S. dollar, and Hong Kong dollar interest rates.

	Expected Changes in Net Profit/(Loss)		
	For the year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
+25 basis points	(2,348)	(1,381)	794
-25 basis points	2,348	1,381	(794)

In conducting the sensitivity analysis above, we adopt the following assumptions when determining business conditions and financial index:

- The fluctuation rates of different interest-bearing assets and liabilities are the same;

- All assets and liabilities are re-priced in the middle of relevant periods;
- Analysis is based on static gap on reporting dates, regardless of subsequent changes;
- No consideration of any impact on customers' behavior resulting from interest rate changes;
- No consideration of any impact on market price resulting from interest rate changes; and
- No consideration of actions taken by us.

Therefore, the actual changes of net profit may differ from the analysis above.

For a discussion of our interest rate risk analysis, see the section headed "Accountant's Report—Notes to the Historical Financial Information—Financial risk management—Financial risk factors—Market risk—Foreign exchange risk."

DIVIDENDS

As we are a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries incorporated in China. Our subsidiaries must comply with their respective constitutional documents and the PRC laws and regulations in declaring and paying dividends to us. Pursuant to the laws applicable to China's foreign-investment enterprises, our subsidiaries must make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of each relevant entity prior to payment of dividends. These reserves include a general reserve and a development fund. Subject to certain cumulative limits, the general reserve requires annual appropriations of 10% of after-tax profits as determined under PRC laws and regulations at each year-end until the balance reaches 50% of the relevant PRC entity's registered capital. Historically, our PRC subsidiaries have not paid dividends to us, and they will not be able to pay dividends until they generate accumulated profits. Our Company had a negative equity of RMB1.51 billion as of December 31, 2017 on our consolidated statements of financial position. As advised by our legal advisors on Cayman Islands law, Harney Westwood & Riegels, the existence of negative equity, however, does not necessarily restrict us from declaring and paying dividends to our Shareholders, as under Cayman Islands law our Company may pay a dividend out of either our profits (realized or unrealized) or amounts standing to the credit of our share premium account, provided that this would not result in our Company being unable to pay our debts as they fall due in the ordinary course of business.

Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

Historically we have not declared or paid any dividend to our Shareholders except that we declared and paid a special dividend of US$1.5 million in 2011. There is no assurance that dividends of any amount will be declared to be distributed in any year. In light of our capital needs for business development and expansion, we do not expect to declare or pay any dividend to our Shareholders within the foreseeable future.

DISTRIBUTABLE RESERVES

As of December 31, 2017, we did not have any distributable reserves.

LISTING EXPENSES

The total listing expenses (including underwriting commissions) payable by our Company is estimated to be approximately HK$118.5 million, assuming the Over-allotment Option and share options granted under the Pre-IPO Share Option Schemes are not exercised and based on an Offer Price of HK$21.50 per Offer Share (being the mid-point of our Offer Price range of HK$20.00 to HK$23.00 per Offer Share), of which HK$8.4 million was charged to our consolidated statements of comprehensive income in 2017, and HK$56.9 million will be charged to our consolidated statements of comprehensive income and HK$53.2 million will be capitalized in 2018. These listing expenses mainly include professional fees, and commissions payable to the Underwriters, for their services rendered in relation to the Listing and the Global Offering.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on our consolidated net tangible assets as of December 31, 2017 as if the Global Offering had taken place on that date.

Our unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of December 31, 2017 or at any future dates following the Global Offering. It is prepared based on our audited consolidated net tangible assets as of December 31, 2017 as set out in the Accountant's Report in Appendix I, and adjusted as described below. No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to December 31, 2017.

	Audited consolidated net tangible liabilities of the Group attributable to the equity holders of the Company as at December 31, 2017(1)	Estimated net proceeds from the Global Offering(2)	Estimated impact to the net assets upon the conversion of the Preferred Shares(3)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at December 31, 2017	Unaudited pro forma adjusted net tangible assets per Share(4)(5)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$20.00 per Share	(1,522,098)	1,029,840	3,042,173	2,549,915	5.13	6.30
Based on an Offer Price of HK$23.00 per Share	(1,522,098)	1,190,745	3,042,173	2,710,820	5.45	6.70

Notes:

(1) The audited consolidated net tangible liabilities of the Group attributable to the equity holders of the Company as at December 31, 2017 is extracted from the Accountant's Report of the Company as set out in Appendix I to this prospectus, which is based on the audited consolidated net liabilities of the Group attributable to the equity holders of the Company as at December 31, 2017 of RMB1,508,610,000 with an adjustment for the intangible assets as at December 31, 2017 of RMB13,488,000

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$20.00 per Share and HK$23.00 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately

RMB6,870,000 which have been accounted for in the Group's consolidated statements of comprehensive income prior to December 31, 2017) payable by the Company and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any share options which may be granted under the Pre-IPO Share Option Schemes or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital."

(3) Upon Listing, all of the Preferred Shares will be automatically converted into Shares pursuant to respective share subscription agreements. Prior to the conversion, the Preferred Shares were accounted for as a liability to the Company. Accordingly, for the purpose of the unaudited pro forma adjusted consolidated net tangible assets, the unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company will be increased by RMB3,042,173,000, being the carrying amounts of the Preferred Shares as at December 31, 2017.

(4) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 497,303,869 Shares were in issue immediately upon completion of the Global Offering (including completion of the conversion of the Preferred Shares into ordinary shares), which is assumed to be on December 31, 2017 for the purpose of the pro forma financial information, and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any share options which may be granted under the Pre-IPO Share Option Schemes or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital."

(5) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.81386. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

(6) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2017.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2017 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there is no event since December 31, 2017 that would materially affect the information shown in our consolidated financial statements included in the Accountant's Report in Appendix I.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.