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HUIFU PAYMENT LIMITED

汇付天下有限公司

(Incorporated in the Cayman Islands with limited liability under the names of
Huifu Limited and 汇付天下有限公司)

(Stock code: 1806)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Huifu Payment Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries and operating entities (collectively, the “**Group**”) for the six months ended 30 June 2020 (the “**Reporting Period**”). The interim results have been prepared in accordance with International Financial Reporting Standards (the “**IFRSs**”) and reviewed by Ernst & Young, the independent auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), and by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

Results for the first half of 2020:

Income statement highlights	For the six months ended 30 June		
	2020	2019	% Change
	RMB'000 (unaudited)	RMB'000 (unaudited)	%
Revenue	1,709,756	1,869,399	(9%)
Gross profit	340,549	459,971	(26%)
(Loss)/profit for the period	(111,971)	142,014	(179%)
Adjusted net profit	84,636	152,501	(45%)

FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
	<i>Notes</i>	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue	3	1,709,756	1,869,399
Cost of sales		<u>(1,369,207)</u>	<u>(1,409,428)</u>
GROSS PROFIT		340,549	459,971
Other income and gains	3	30,812	11,561
Finance income		10,687	17,927
Selling and distribution expenses		(113,901)	(115,132)
Administrative expenses		(256,732)	(116,233)
Research and development expenses		(145,654)	(122,925)
Other expenses		(12,956)	(9,421)
Finance costs		(7,496)	(10,643)
Share of (losses)/profits of associates		(3,072)	1,322
Net gains on financial instruments at fair value through profit or loss		<u>47,093</u>	<u>28,348</u>
(LOSS)/PROFIT BEFORE TAX	4	(110,670)	144,775
Income tax expense	5	<u>(1,301)</u>	<u>(2,761)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u>(111,971)</u>	<u>142,014</u>
Attributable to:			
Owners of the parent		(110,268)	144,767
Non-controlling interests		<u>(1,703)</u>	<u>(2,753)</u>
		<u>(111,971)</u>	<u>142,014</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic			
– For (loss)/profit for the period		<u>RMB(0.09)</u>	<u>RMB0.12</u>
– For (loss)/profit from continuing operations		<u>RMB(0.09)</u>	<u>RMB0.12</u>
Diluted			
– For (loss)/profit for the period		<u>RMB(0.09)</u>	<u>RMB0.11</u>
– For (loss)/profit from continuing operations		<u>RMB(0.09)</u>	<u>RMB0.11</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
(LOSS)/PROFIT FOR THE PERIOD	<u>(111,971)</u>	<u>142,014</u>
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>16,214</u>	<u>2,145</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>16,214</u>	<u>2,145</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>16,214</u>	<u>2,145</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u>(95,757)</u>	<u>144,159</u>
Attributable to:		
Owners of the parent	<u>(94,054)</u>	146,912
Non-controlling interests	<u>(1,703)</u>	<u>(2,753)</u>
	<u>(95,757)</u>	<u>144,159</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	<i>Notes</i>	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		614,560	672,859
Right-of-use assets		12,215	12,935
Goodwill		–	–
Other intangible assets		35,018	32,586
Investments in associates		51,808	54,880
Financial assets at fair value through profit or loss		25,100	23,600
Deferred tax assets		15,130	15,358
		<hr/>	<hr/>
Total non-current assets		753,831	812,218
CURRENT ASSETS			
Inventories		127	395
Contract assets	8	79,994	92,686
Factoring assets		3,987	31,235
Due from related companies		283	291
Due from management personnel		51,477	–
Prepayments, other receivables and other assets		6,297,488	5,359,145
Tax recoverable		17,066	3,661
Financial assets at fair value through profit or loss		100,175	63,940
Time deposits		141,633	219,749
Restricted cash		1,495,697	2,280,246
Cash and cash equivalents		1,447,779	1,366,816
		<hr/>	<hr/>
Total current assets		9,635,706	9,418,164

	<i>Notes</i>	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
CURRENT LIABILITIES			
Trade payables	9	316,447	242,115
Contract liabilities		612	907
Other payables, deposits received and accruals		7,686,773	7,606,095
Advances from customers		2,134	4,543
Due to related companies		15,107	11,538
Derivative financial instruments		23	–
Interest-bearing bank loans		147,409	168,547
Tax payable	5	40	64
Lease liabilities within one year		<u>8,098</u>	<u>6,985</u>
Total current liabilities		<u>8,176,643</u>	<u>8,040,794</u>
NET CURRENT ASSETS		<u>1,459,063</u>	<u>1,377,370</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,212,894</u>	<u>2,189,588</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		101,660	120,591
Lease liabilities		<u>4,228</u>	<u>5,882</u>
Total non-current liabilities		<u>105,888</u>	<u>126,473</u>
NET ASSETS		<u>2,107,006</u>	<u>2,063,115</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		105	101
Treasury shares		(320,286)	(220,627)
Reserves		<u>2,429,282</u>	<u>2,283,902</u>
		<u>2,109,101</u>	<u>2,063,376</u>
Non-controlling interests		<u>(2,095)</u>	<u>(261)</u>
TOTAL EQUITY		<u>2,107,006</u>	<u>2,063,115</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the parent									Non-controlling interests	Total equity
	Share capital	Treasury shares	Capital reserve*	Share option reserve*	Statutory surplus reserve*	Other reserve*	Retained profits*	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2020 (audited)	101	(220,627)	1,474,025	180,558	110,268	87,621	431,430	2,063,376	(261)	2,063,115	
Total comprehensive income for the period	-	-	-	-	-	16,214	(110,268)	(94,054)	(1,703)	(95,757)	
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(131)	(131)	
Shares repurchased	-	(5,383)	-	-	-	-	-	(5,383)	-	(5,383)	
Shares cancelled	-	5,383	(5,383)	-	-	-	-	-	-	-	
Equity-settled share option arrangements	-	-	-	2,767	-	-	-	2,767	-	2,767	
Exercise of share options	4	-	80,829	(19,816)	-	-	-	61,017	-	61,017	
Share award scheme:											
– value of employee services	-	-	188,865	-	-	-	-	188,865	-	188,865	
– shares withheld for share award schemes	-	(107,487)	-	-	-	-	-	(107,487)	-	(107,487)	
– transfer awarded shares	-	7,828	(7,828)	-	-	-	-	-	-	-	
As at 30 June 2020 (unaudited)	<u>105</u>	<u>(320,286)</u>	<u>1,730,508</u>	<u>163,509</u>	<u>110,268</u>	<u>103,835</u>	<u>321,162</u>	<u>2,109,101</u>	<u>(2,095)</u>	<u>2,107,006</u>	

* As at 30 June 2020, these reserve accounts comprised the total consolidated reserves of RMB2,429,282,000 (31 December 2019: RMB2,283,902,000) in the interim condensed consolidated statement of financial position.

For the six months ended 30 June 2019

	Attributable to owners of the parent									Non-controlling interests	Total equity
	Share capital	Treasury shares	Capital reserve	Share option reserve	Statutory surplus reserve	Other reserve	Retained profits	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019 (audited)	101	(2,890)	1,459,176	162,039	69,740	68,215	222,963	1,979,344	4,251	1,983,595	
Total comprehensive income for the period	-	-	-	-	-	2,145	144,767	146,912	(2,753)	144,159	
Shares repurchased	-	(26,727)	-	-	-	-	-	(26,727)	-	(26,727)	
Shares cancelled	-	7,834	(7,834)	-	-	-	-	-	-	-	
Equity-settled share option arrangements	-	-	-	10,487	-	-	-	10,487	-	10,487	
Exercise of share options	-	-	5,272	(1,312)	-	-	-	3,960	-	3,960	
As at 30 June 2019 (unaudited)	<u>101</u>	<u>(21,783)</u>	<u>1,456,614</u>	<u>171,214</u>	<u>69,740</u>	<u>70,360</u>	<u>367,730</u>	<u>2,113,976</u>	<u>1,498</u>	<u>2,115,474</u>	

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
<i>Notes</i>	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax:		
From continuing operations	(110,670)	144,775
Adjustments for:		
Finance costs	7,496	10,643
Share of losses/(profits) of associates	3,072	(1,322)
Finance income	(10,687)	(17,927)
Investment income on financial investments	(10,282)	(6,855)
Gain on disposal of items of property, plant and equipment	(450)	–
Gain on disposal of a subsidiary	(6,693)	–
Depreciation of items of property, plant and equipment	114,619	114,523
Depreciation of right-of-use assets	3,898	3,092
Amortisation of other intangible assets	4,379	4,167
Impairment of contract assets	(120)	20
Impairment of factoring assets	(139)	70
Impairment of other receivables	2,579	6,970
Equity-settled share option expense	2,767	10,487
Share award scheme expense	188,865	–
Net gains on financial instruments at fair value through profit or loss	(47,093)	(28,348)
(Increase)/decrease in inventories	(58)	318
Decrease/(increase) in contract assets	12,806	(4,440)
Decrease/(increase) in factoring assets	27,387	(13,914)
Decrease/(increase) in amounts due from related companies	8	(132)
Increase in prepayments, other receivables and other assets	(943,975)	(13,233,324)
Decrease/(increase) in restricted cash	790,079	(727,336)
Increase/(decrease) in trade payables	22,142	(128,713)
Decrease in contract liabilities	(295)	(25,334)
Increase in amounts due to related companies	3,569	3,202
Increase in other payables, deposits received and accruals	89,708	14,093,019
(Decrease)/increase in advances from customers	(2,326)	2,000
Cash generated from operations	140,586	205,641
Interest received	13,273	14,053
Interest paid	(7,661)	(16,091)
Tax paid	(14,502)	(6,866)
Net cash flows from operating activities	131,696	196,737

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Placement of time deposits with original maturity of over three months when acquired	78,116	–
Investment income received	61,175	11,265
Purchases of items of property, plant and equipment	(5,871)	(55,200)
Purchases of other intangible assets	(7,104)	(3,454)
Acquisition of financial investments	(832,980)	(459,803)
Disposal of financial investments	792,968	637,100
Disposal of property, plant and equipment	1,463	12
Disposal of a subsidiary	(2,066)	–
	<hr/>	<hr/>
Net cash flows from investing activities	85,701	129,920
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of share options	61,017	3,960
Advances to management personnel	(51,477)	–
(Increase)/decrease in restricted cash	(5,530)	205,173
Proceeds from interest-bearing bank and other borrowings	20,037	42,000
Repayment from interest-bearing bank and other borrowings	(60,106)	(405,520)
Shares withheld for share award schemes	(107,487)	–
Payment on repurchase of shares	(5,383)	(26,727)
Principal portion of lease payments	(3,719)	(3,497)
	<hr/>	<hr/>
Net cash flows used in financing activities	(152,648)	(184,611)
	<hr/>	<hr/>

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	64,749	142,046
Cash and cash equivalents at beginning of the period	1,366,816	1,514,966
Effect of foreign exchange rate changes, net	<u>16,214</u>	<u>2,145</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>1,447,779</u>	<u>1,659,157</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,943,476	3,225,500
Non-pledged time deposits with original maturity of less than three months when acquired	-	566,477
Less: Restricted cash	<u>(1,495,697)</u>	<u>(2,132,820)</u>
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS	<u>1,447,779</u>	<u>1,659,157</u>

NOTES TO UNAUDITED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The interim condensed financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board (the “IASB”).

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

All intra-group transactions and balances have been eliminated on combination.

2. CHANGES IN THE GROUP’S ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

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

- (a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are not expected to have any significant impact on the Group's financial statements.
- (c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have rent concessions from lessors.
- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Revenue from contracts with customers</i>	1,708,708	1,868,151
<i>Revenue from other sources</i>		
Gross rental income	424	545
Factoring income	624	703
	<u>1,709,756</u>	<u>1,869,399</u>

Disaggregated revenue information for revenue from contracts with customers

Segments

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Type of goods or services		
Payment services	<u>1,708,708</u>	<u>1,868,151</u>
Geographical markets		
Mainland China	<u>1,706,619</u>	<u>1,868,151</u>
Others	<u>2,089</u>	<u>–</u>
Total	<u>1,708,708</u>	<u>1,868,151</u>
Timing of revenue recognition		
Revenue recognised at a point in time	<u>1,707,990</u>	<u>1,826,481</u>
Revenue recognised over time	<u>718</u>	<u>41,670</u>
Total revenue from contracts with customers	<u>1,708,708</u>	<u>1,868,151</u>

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Other income and gains, net		
Investment income on financial investments	<u>10,282</u>	<u>6,855</u>
Government grants	<u>12,613</u>	<u>4,613</u>
Gain on disposal of a subsidiary	<u>6,693</u>	<u>–</u>
Gain on disposal of items of property, plant and equipment	<u>450</u>	<u>–</u>
Others	<u>774</u>	<u>93</u>
	<u>30,812</u>	<u>11,561</u>

4. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging:

		For the six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
	Notes	(Unaudited)	(Unaudited)
Cost of payment services		1,368,844	1,409,092
Depreciation of property, plant and equipment		114,619	114,523
Depreciation of right-of-use assets		3,898	3,092
Amortisation of other intangible assets		4,379	4,167
Impairment of contract assets	8	(120)	20
Impairment of factoring assets		(139)	70
Impairment of other receivables		2,579	6,970
Gain on disposal of items of property, plant and equipment	3	450	–
Gain on disposal of a subsidiary	3	6,693	–
Auditor's remuneration		900	800
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries		164,677	180,257
Equity-settled share option expense	10	2,767	10,487
Share award scheme expense	10	188,865	–
Pension scheme contributions and social welfare		16,358	41,014
Foreign exchange differences, net		5,630	2,199

5. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group's subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong and the United States are subject to tax rates of 16.5% and 29.84%, respectively.

Moreover, according to the announcement and circular issued by the relevant government authorities, Shanghai Payment and the Remittance Data Service Co., Ltd. was certified a national key software enterprise and was therefore subject to a preferential tax rate of 10% for the six months ended 30 June 2020 and 2019.

Other subsidiaries of the Group operating in Mainland China were subject to PRC corporate income tax rate of 25% for the six months ended 30 June 2020 and 2019.

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC corporate income tax	1,073	3,607
Deferred tax	228	(846)
	<hr/>	<hr/>
Total tax charge for the period	<u>1,301</u>	<u>2,761</u>

A reconciliation of income tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the income tax expense at the effective income tax rate for the six months ended 30 June 2020 and 2019 is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/profit before tax	<u>(110,670)</u>	<u>144,775</u>
Tax calculated at the PRC statutory income tax rate of 25%	(27,668)	36,194
Different income tax rates applicable to subsidiaries	(10,917)	(8,935)
Preferential income tax rates applicable to subsidiaries	(4,722)	(17,783)
Losses/(profits) attributable to associates	768	(330)
Additional deduction for research and development expense	(4,280)	(10,742)
Expenses not deductible for tax	48,331	1,551
Tax losses utilised from previous periods	(523)	(1,571)
Deductible temporary differences and tax losses not recognised	312	4,377
	<hr/>	<hr/>
Tax charge at the Group's effective rate	<u>1,301</u>	<u>2,761</u>
	<hr/>	<hr/>
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Tax payable		
PRC corporate income tax	<u>40</u>	<u>64</u>

6. DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended 30 June 2020 and 2019.

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,184,910,104 in issue during the six months ended 30 June 2020 (six months ended 30 June 2019: 1,250,149,258), as adjusted to reflect the rights issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent entity	<u>(110,268)</u>	<u>144,767</u>
	Number of shares	
	For the six months	
	ended 30 June	
	2020	2019
Shares		
Weighted average number of ordinary shares in the basic earnings per share calculation	1,184,910,104	1,250,149,258
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>18,126,653</u>	<u>56,500,690</u>
	<u>1,203,036,757</u>	<u>1,306,649,948</u>

8. CONTRACT ASSETS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contract assets derived from:		
Payment services	80,341	93,153
Provision for impairment	<u>(347)</u>	<u>(467)</u>
	<u>79,994</u>	<u>92,686</u>

The movement in provision for impairment of contract assets is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
At beginning of the period/year	467	94
Impairment losses recognized, net	<u>(120)</u>	<u>373</u>
At end of the period/year	<u>347</u>	<u>467</u>

An ageing analysis of the contract assets as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within one year	79,819	92,618
After one year	<u>175</u>	<u>68</u>
	<u>79,994</u>	<u>92,686</u>

9. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Less than 1 year	304,790	231,084
Over 1 year	11,657	11,031
	<u>316,447</u>	<u>242,115</u>

The trade payables are unsecured, non-interest-bearing and repayable within the normal operating cycle or on demand.

The fair values of trade payables as at the end of the reporting period approximated to their corresponding carrying amounts due to their relatively short maturity terms.

10. SHARE OPTION ARRANGEMENTS

(a) Share options under the PnR Series B Employee Stock Ownership Plans (“ESOP”)

On 16 September 2011, the Board of Directors of PnR Holdings Limited approved the establishment of the PnR Series B ESOP Plan with the purpose of providing incentives to senior management, mid-level employees and staff contributing to the Group. The PnR Series B ESOP Plan is valid and effective for 10 years from the grant date. The maximum number of shares that may be issued by all awards under the PnR Series B ESOP Plan shall be 95,271,885 shares.

The exercise price of all granted options to senior management, mid-level employees and staff is US\$0.18 per ordinary share. 10%, 15%, 20%, 25% and 30% of the shares subject to the options shall vest at the first, second, third, fourth and fifth anniversaries of the Vesting Commencement Date, respectively. The Vesting Commencement Date should be determined by grantees for each grant agreement. The granted options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options may not be exercised until they vest. Once vested, the vested portion of the options may be exercised in whole or in part, at any time.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Movements in the number of the share options granted to senior management, mid-level employees and staff and their weighted average exercise prices are as follows:

		30 June 2020 (Unaudited)	31 December 2019 (Audited)
	Exercise price		
At the beginning of the period/year		86,371,913	95,198,235
Granted	US\$0.18	–	–
Exercised	US\$0.18	(48,946,672)	(8,115,140)
Forfeited	US\$0.18	(1,154,491)	(711,182)
		<u>36,270,750</u>	<u>86,371,913</u>

As at 30 June 2020 and 31 December 2019, 36,270,750 and 86,371,913 outstanding options, respectively, were exercisable.

The directors have used the discounted cash flow (the “**DCF**”) method to determine the underlying equity fair value of the Group and adopted the equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rates and projections of future performance, are required to be determined by the directors with best estimates.

Based on the fair value of the underlying ordinary shares, the directors have used the binomial model to determine the fair value of the share options as at the grant date. Key assumptions are set out below:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Risk-free interest rate	2.98%	2.98%
Volatility	37%	37%
Dividend yield	0%	0%

The directors estimated the risk-free interest rate based on the yield of United States Treasury Securities with maturity close to the option life of the share options. Volatility was estimated at the grant date based on the average historical volatilities of the comparable companies with length commensurable to the time to maturity of the share options. Dividend yield is based on management estimation at the grant date. The total expenses recognised in the consolidated statement of profit or loss for the share options granted to senior management, mid-level employees and staff were nil and RMB14,000 for the six months ended 30 June 2020 and the year ended 31 December 2019, respectively.

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the share options (the “**Expected Retention Rate**”) in order to determine the amount of the share option expense charged to the consolidated statement of profit or loss. As at 30 June 2020 and 31 December 2019, the expected retention rates for senior management were assessed to be 95% and 95%, respectively; the expected retention rates for the mid-level employees and staff were assessed to be 90% and 90%, respectively.

(b) Share options under the PnR Series C ESOP Plan

On 12 December 2017, the Board of Directors of PnR Holdings Limited approved the establishment of the PnR Series C ESOP Plan with the purpose of providing incentives to senior management, mid-level employees and staff contributing to the Group. The PnR Series C ESOP Plan is valid and effective for 10 years from the grant date. The maximum number of shares that may be issued by all awards under the PnR Series C ESOP Plan shall be 90,320,084 shares.

The exercise price of all granted options to senior management, mid-level employees and staff is US\$0.55 per ordinary share. 25%, 25%, 25% and 25% of the shares subject to the option shall vest at the first, second, third and fourth anniversaries of the Vesting Commencement Date, respectively. The Vesting Commencement Date should be determined by grantees for each grant agreement. The granted options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options may not be exercised until they vest. Once vested, the vested portion of the options may be exercised in whole or in part, at any time.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Movements in the number of the share options granted to senior management, mid-level employees and staff and their weighted average exercise prices are as follows:

		30 June 2020	31 December 2019
	Exercise price	(Unaudited)	(Audited)
At the beginning of the period/year		80,387,877	89,335,480
Granted	US\$0.55	–	–
Forfeited	US\$0.55	<u>(6,206,943)</u>	<u>(8,947,603)</u>
At the end of the period/year		<u>74,180,934</u>	<u>80,387,877</u>

As at 30 June 2020 and 31 December 2019, 74,180,934 and 80,387,877 outstanding options, respectively, were exercisable.

The directors have used the DCF method to determine the underlying equity fair value of the Group and adopted the equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rates and projections of future performance, are required to be determined by the directors with best estimates.

Based on the fair value of the underlying ordinary share, the directors have used the binomial model to determine the fair value of the share options as at the grant date. Key assumptions are set out below:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Risk-free interest rate	2.39%	2.39%
Volatility	34%	34%
Dividend yield	0%	0%

The directors estimated the risk-free interest rate based on the yield of United States Treasury Securities with maturity close to the option life of the share options. Volatility was estimated at the grant date based on average historical volatilities of the comparable companies with length commensurable to the time to maturity of the share options. Dividend yield is based on management estimation at the grant date. The total expenses recognised in the consolidated statement of profit or loss for the share options granted to senior management, mid-level employees and staff were nil and RMB8,816,000 for the six months ended 30 June 2020 and the year ended 31 December 2019, respectively.

The Group has to estimate the expected retention rate in order to determine the amount of the share option expense charged to the consolidated statement of profit or loss. As at 30 June 2020 and 31 December 2019, the expected retention rates for senior management were assessed to be 95% and 95%, respectively; the expected retention rates for the mid-level employees and staff were assessed to be 90% and 90%, respectively.

(c) Share options under the PnR Series D ESOP Plan

On 20 January 2018, the Board of Directors of PnR Holdings Limited approved the establishment of the PnR Series D ESOP Plan with the purpose of providing incentives to senior management, mid-level employees and staff contributing to the Group. The PnR Series D ESOP Plan is valid and effective for 10 years from the grant date. The maximum number of shares that may be issued by all awards under the PnR Series D ESOP Plan shall be 116,331,968 shares.

The exercise prices of 80% and 20% granted options to senior management, mid-level employees and staff are US\$0.7846 and HK\$7.50 per ordinary share, respectively. 55%, 20%, 20% and 5% of the shares subject to the options shall vest when certain vesting conditions are met. The granted options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options may not be exercised until they vest. Once vested, the vested portion of the options may be exercised in whole or in part, at any time.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Movements in the number of the share options granted to senior management, mid-level employees and staff and their weighted average exercise prices are as follows:

	Exercise price	30 June 2020 (Unaudited)	31 December 2019 (Audited)
At the beginning of the period/year		116,052,772	116,331,968
Granted	US\$0.7846 or HK\$7.50	–	–
Forfeited	US\$0.7846 or HK\$7.50	(6,933,384)	(279,196)
At the end of the period/year		<u>109,119,388</u>	<u>116,052,772</u>

As at 30 June 2020 and 31 December 2019, 83,548,520 and 86,969,779 outstanding options, respectively, were exercisable.

The directors have used the DCF method to determine the underlying equity fair value of the Group and adopted the equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rates and projections of future performance, are required to be determined by the directors with best estimates.

Based on the fair value of the underlying ordinary shares, the directors have used the binomial model to determine the fair value of the share options as at the grant date. Key assumptions are set out below:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Risk-free interest rate	2.64%	2.64%
Volatility	34%	34%
Dividend yield	0%	0%

The directors estimated the risk-free interest rate based on the yield of United States Treasury Securities with maturity close to the option life of the share options. Volatility was estimated at the grant date based on average historical volatilities of the comparable companies with length commensurable to the time to maturity of the share options. Dividend yield is based on management estimation at the grant date. The total expenses recognised in the consolidated statement of profit or loss for the share options granted to senior management, mid-level employees and staff were RMB2,767,000 and RMB12,300,000 for the six months ended 30 June 2020 and the year ended 31 December 2019, respectively.

The Group has to estimate the expected retention rate in order to determine the amount of the share option expense charged to the consolidated statement of profit or loss. As at 30 June 2020 and 31 December 2019, the expected retention rates for senior management were assessed to be 95% and 95%, respectively; the expected retention rates for the mid-level employees and staff were assessed to be 90% and 90%, respectively.

(d) Replacement of the PnR ESOP Plans

The PnR Series B ESOP Plan, PnR Series C ESOP Plan and PnR Series D ESOP Plan are collectively called the PnR ESOP Plans.

On 20 January 2018, the Company's board of directors approved to adopt the Huifu ESOP Plans to substitute the PnR ESOP Plans. The Huifu ESOP Plans will come into effect upon the termination of the PnR ESOP Plans and, together with the PnR ESOP Plans, are a total package and arrangement for the employees and management of PnR Holdings Limited. All key items in the Huifu ESOP Plans are the same as those in the PnR ESOP Plans and therefore such arrangement was accounted for as a share option replacement.

(e) Share award scheme

On 28 May 2019, the board of directors considered and approved certain key terms of a share award scheme (the "**Scheme**"). The objectives of the Scheme are to recognize and motivate the contributions by the employees and give incentives thereto in order to retain them, as well as to attract suitable personnel for further development of the Group. The Scheme will be valid and effective for a term of 4 years commencing from the effective date, which is subject to the finalization of the Scheme. The shares in the share pool under the Scheme will be purchased from the secondary market. The maximum amount of the fund to be contributed by the Company for purchasing the shares is set at RMB400,000,000. At no time shall the trustees be holding more than 10% of the total number of shares of the Company in issue under the Scheme.

Movements in the number of awarded shares are as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
At beginning of the period/year	14,562,816	–
Granted and vested	113,793,984	15,330,416
Vested and transferred	(2,899,600)	(767,600)
At the end of the period/year	<u>125,457,200</u>	<u>14,562,816</u>
Vested but not transferred as at the end of the period/year	<u>125,457,200</u>	<u>14,562,816</u>

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date.

The weighted average fair value of awarded shares granted during the six months ended 30 June 2020 was HK\$1.81 per share (equivalent to approximately RMB1.66 per share) (During the year ended 31 December 2019: HK\$2.84 per share, equivalent to approximately RMB2.55 per share).

The outstanding awarded shares as of 30 June 2020 can be exercised immediately.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

The spread of the COVID-19 around the world had a significant impact on the economy, but also promote the digital transformation of various industries including catering, retail and industry chain platform. With rapid extension of offline physical stores to online scenarios, digital emerging scenarios such as E-commerce livestreaming, telecommuting, online games and cloud services has developed rapidly, and there is huge room for the development of enterprise digital service market.

Corporate Strategy

In order to adapt to the acceleration of digital process of various scenarios and merchants in the context of outbreak of the COVID-19, we further clarified the strategic direction of digital. We positioned as a digital solution provider with the focus on omni-channel payment and evolved from “SaaS + Payment” to “Payment + SaaS”. On the basis of cooperation with various industry-leading SaaS institutions, we continuously improved the capacity of technology, data and platform, took advantage of payment to access to the scenarios service, and developed the capacity of provision of end-to-end service for merchants by way of integration of self-developed and cooperative SaaS products, so as to formulate rapid, efficient and customized scenario solutions for various customers.

Business Overview

We formulated a comprehensive layout in digital business scenarios. We actively carried out the construction of digital distribution platform for acquiring business to improve the efficiency of channel operation. We have launched independently developed small program SaaS products for education, medical cosmetology, catering and other industries on the basis of cooperation with well-known SaaS institutions, resulting in revenue from SaaS business increased by 50% as compared with the same period of last year. For small and micro merchants, we have launched the omni-channel payment brand “Huilaimi (匯來米)”, and the daily transaction volume has exceeded two million currently. Also, our cross-border & international business kept strong growth, with an increase in transaction volume of 46% in the first half of the year as compared to the same period of last year.

We continuously increased our investment in research and development, comprehensively promoted the application of cloudnative technologies, and improved the research and development efficiency through digital tools, as a result, more than 80% of our demands can be delivered within two weeks. We made a breakthrough in research and development of cutting-edge technologies, and fully adapted to the needs of online and mobile business scenarios through the self-developed mini program development tools.

We built a unified product operation platform, reconstructed the operation process system, promoted business automation and flexible configuration, realized 18% optimization of basic operating personnel, and reduced the risk loss ratio to 0.007BP. We established an all-domain data index system, covering from front-end to back-end indicators of the Company in real time, providing a measurable and visualized monitoring system for management decisions.

The following table sets forth a breakdown of the Group's payment volume through four main business directions for the six months ended 30 June 2019 and 2020, respectively, for comparison purpose.

Unit: RMB in billion

	For the six months ended		Percentage changed
	30 June 2020	2019	
Payment Volume			
– Integrated merchants acquiring	739.9	776.5	(5%)
– SaaS service	110.8	76.2	45%
– Industry solution	98.5	185.1	(47%)
– Cross-border & international business	30.4	20.8	46%
Total	<u>979.6</u>	<u>1,058.6</u>	<u>(7%)</u>

Based on the above for the six months ended 30 June 2020, the payment volume through four business directions amounted to approximately RMB979.6 billion in aggregate, representing a decrease of around 7% as compare to the same period of last year. Although the industry solution and integrated merchants acquiring were adversely affected by the COVID-19 epidemic, transaction volume of SaaS service increased by 45% compared with the same period of last year due to the expansion of cooperation with SaaS as a result of continuous establishment of digital scenarios, while cross-border & international business maintained stable development and transaction volume increased by 46% compared with the same period of last year, partially offset the decrease of payment volume.

OPERATING RESULTS AND ANALYSIS

The Six Months Ended 30 June 2020 Compared to Six Months Ended 30 June 2019

The following table sets forth the comparative figures for the six months ended 30 June 2019 and 2020, respectively:

	For the six months ended		<i>Unit: RMB'000</i>
	30 June		Percentage
	2020	2019	changed
Revenue	1,709,756	1,869,399	(9%)
Cost of sales	(1,369,207)	(1,409,428)	(3%)
Gross Porfit	340,549	459,971	(26%)
Selling and marketing expenses	(113,901)	(115,132)	(1%)
Administrative expenses	(256,732)	(116,233)	121%
Research and development expenses	(145,654)	(122,925)	18%
Finance costs	(7,496)	(10,643)	(30%)
Share of (losses)/profits of associates	(3,072)	1,322	(332%)
Net gains on financial instruments at fair value through profit or loss	47,093	28,348	66%
Other expenses	(12,956)	(9,421)	38%
Finance income	10,687	17,927	(40%)
Other income and gains	30,812	11,561	167%
(Loss)/profit before tax	(110,670)	144,775	(176%)
Income tax expenses	(1,301)	(2,761)	(53%)
(Loss)/profit for the period	(111,971)	142,014	(179%)
(Loss)/profit attribute to:			
Owners of the parent	(110,268)	144,767	(176%)
Non-controlling interests	(1,703)	(2,753)	(38%)
	(111,971)	142,014	(179%)
Reconciliation of profit for the first half of the year to EBITDA	19,722	277,200	(93%)
EBITDA			
Reconciliation of profit for the first half of the year to adjusted net profit			
Adjusted net profit	84,636	152,501	(45%)

REVENUE

The following table sets forth a breakdown of the Group's revenue through four main business directions for the six months ended 30 June 2019 and 2020, respectively:

	For the six months ended		<i>Unit: RMB'000</i>
	30 June		Percentage
	2020	2019	changed
– Integrated merchants acquiring	1,306,134	1,514,094	(14%)
– SaaS service	300,270	198,594	51%
– Industry solution	82,516	139,343	(41%)
– Cross-border&international business	20,836	17,368	20%
Total	<u>1,709,756</u>	<u>1,869,399</u>	<u>(9%)</u>

Revenue from the Group's businesses amounted to RMB1,709.8 million during the six months ended 30 June 2020, representing a decrease of approximately 9% as compared to the same period of last year, which was mainly in line with the changing trend of transaction volume. However, the growth of revenue from SaaS service was higher than that of the transaction volume compared with the same period of last year due to the development and promotion of SaaS business.

COST OF SALES

The following table sets forth the cost of sales of the Group by nature for the periods indicated:

	<i>Unit: RMB'000</i>		
	For the six months ended		Percentage changed
	30 June		
	2020	2019	
Commission and fees	819,849	966,267	(15%)
Processing fee	436,798	333,100	31%
Depreciation of payment terminals	100,656	101,149	0%
Customer identification fee	3,938	7,936	(50%)
Cost of payment terminals	6,992	–	NA
Others	974	976	0%
Total	<u>1,369,207</u>	<u>1,409,428</u>	<u>(3%)</u>

The cost of sales of the Group decreased by around 3% from approximately RMB1,409.4 million for the six months ended 30 June 2019 to approximately RMB1,369.2 million for the six months ended 30 June 2020. Such decrease was primarily attributable to: (i) the decrease of approximately 15% in commission and fees resulting from the decrease in the revenue of the Group; and (ii) an increase of about 31% in processing fee due to the increased payment volume processed mainly in respect of SaaS services.

GROSS PROFIT

The following table sets forth a breakdown of the Group's gross profit through four main business directions for the six months ended 30 June 2019 and 2020, respectively:

	<i>Unit: RMB'000</i>				
	For the six months ended 30 June		Gross profit	Gross margin	Percentage changed in gross profit
	2020				
	Gross profit	Gross margin	2019		
Merchant Payment Services					
– Integrated merchants acquiring	243,449	18.6%	354,294	23.4%	(31%)
– SaaS service	48,146	16.0%	30,207	15.2%	59%
– Industry solution	37,632	45.6%	65,586	47.1%	(43%)
– Cross-border&international business	11,322	54.3%	9,884	56.9%	15%
Total	<u>340,549</u>	<u>19.9%</u>	<u>459,971</u>	<u>24.6%</u>	<u>(26%)</u>

The Group's gross profit decreased from approximately RMB460.0 million for the six months ended 30 June 2019 to RMB340.5 million for the six months ended 30 June 2020. Its overall gross profit margin amounting to 24.6% for the six months ended 30 June 2019 declined to 19.9% for the six months ended 30 June 2020. Such decrease in gross profit margin was primarily attributable to (i) SaaS service business accounted for a higher percentage compared to the same period of last year, while gross profit margin of SaaS service continuously increased, representing a uptrend compared with the same period of last year; and (ii) the decrease in the gross profit margin of integrated merchants acquiring business during the Reporting Period was attributable to the increase in the commission and fees paid by the Company in order to support channel partners, which resulted in the decrease of the gross profit margin.

SELLING AND MARKETING EXPENSES

The selling and marketing expenses of the Group decreased by around 1.1% from approximately RMB115.1 million for the six months ended 30 June 2019 to approximately RMB113.9 million for the six months ended 30 June 2020. Such decrease was mainly attributable to a decrease in related selling expenses compared with the same period of last year and a decrease in staff cost benefiting from the temporary exemption or reduction of enterprises' social insurance premiums by Shanghai Municipal Human Resources and Social Security Bureau and Shanghai Municipal Finance Bureau under the impact of the COVID-19 pandemic.

ADMINISTRATIVE EXPENSES

The administrative expenses of the Group increased by around 120.9% from approximately RMB116.2 million for the six months ended 30 June 2019 to approximately RMB256.7 million for the six months ended 30 June 2020. Such increase was primarily attributable to an increase of the share-based payment expenses as a result of the grant of the restricted share units under the share award scheme adopted in August 2019 by the Company (the "**Share Award Scheme**"), which have been fully granted in the Reporting Period. If the effect of the Share Award Scheme is excluded, the Company realized cost reduction and efficiency improvement by the establishment of internal digital operation platform, resulting in a decrease in these expenses as compared with the same period of last year, and staff cost was also reduced as a result of the temporary exemption or reduction of social insurance premiums during the pandemic.

RESEARCH AND DEVELOPMENT EXPENSES

The research and development expenses of the Group increased by around 18.5% from approximately RMB122.9 million for the six months ended 30 June 2019 to approximately RMB145.7 million for the six months ended 30 June 2020. Such increase was primarily due to the promotion of digital transformation of the Company resulting in an continuous increase in research and development investments.

FINANCE COSTS

The finance costs of the Group include interest expenses on bank borrowings and interest expenses on lease liabilities. The interest expenses on bank borrowings represent the interest the Group paid to commercial banks for borrowings.

The finance costs of the Group decreased by around 29.6% from approximately RMB10.6 million for the six months ended 30 June 2019 to approximately RMB7.5 million for the six months ended 30 June 2020. Such decrease was mainly attributable to the less average balance of the bank borrowings in the first half of 2020 as compared to the corresponding period of 2019.

NET GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Change in fair value of investment of the Group at fair value through profit or loss increased from approximately RMB28.3 million for the six months ended 30 June 2019 to approximately RMB47.1 million for the six months ended 30 June 2020, mainly resulting from the fair value gains of equity investment.

OTHER EXPENSES

The other expenses of the Group increased by around 37.5% from approximately RMB9.4 million for the six months ended 30 June 2019 to approximately RMB13.0 million for the six months ended 30 June 2020. The increase mainly due to the Group's pandemic donation to fight against COVID-19 pandemic.

OTHER INCOME AND GAINS

The Group's other income and gains mainly include: (i) interest income of wealth management products; and (ii) government grants.

The other income and gains of the Group increased by around 167% from approximately RMB11.6 million for the six months ended 30 June 2019 to approximately RMB30.8 million for the six months ended 30 June 2020. Such increase was primarily due to an increase in investment gains of financial assets from the Group's wealth management products measured at fair value through profit or loss for the Reporting Period.

INCOME TAX EXPENSE

Under the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法), a subsidiary of the Group was recognised as a key software enterprise, which was entitled to preferential corporate income tax policies and subject to the statutory rate of 10%. Other subsidiaries are subject to income tax on an individual legal entity basis.

The income tax expense of the Group decreased by around 52.9% from approximately RMB2.8 million for the six months ended 30 June 2019 to approximately RMB1.3 million for the six months ended 30 June 2020. Such decrease was primarily due to the decrease in the profits before tax of the Company as compared to the same period of last year.

(LOSS)/PROFIT FOR THE PERIOD

As a result of the above-mentioned reasons and changes, the Group recorded a loss of RMB112.0 million for the six months ended 30 June 2020 as compared to a profit of RMB142.0 million for the same period in the last year.

NON-IFRSs FINANCIAL MEASURES

To supplement the Company's consolidated financial statements which are presented in accordance with IFRS, the Company also uses three non-IFRS measures, including EBITDA, adjusted EBITDA and adjusted net profits, as additional financial measures, which are not required by, or presented in accordance with, IFRS. The Company believes that these three non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that the management of the Company does not consider indicative of the Company's operating performance. The Company believes that these measures provide useful information to investors and others in understanding and evaluating its consolidated results of operations in the same manner as they help in the management of the Company. However, the presentation of EBITDA, adjusted EBITDA and adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and the investors and shareholders of the Company (the "**Shareholders**") should not consider them in isolation from, or as substitute for analysis of, the Company's results of operations or financial condition as reported under IFRS.

The EBITDA is defined as profit for the year adjusted by adding income tax expense, finance costs, depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets. The adjusted EBITDA is defined as EBITDA adjusted by adding equity-settled share option expense, share award scheme expense and epidemic donation. The adjusted net profit is defined as profit for the Reporting Period adjusted by adding equity-settled share option expense, share award scheme expense and epidemic donation.

The following table reconciles the Group's EBITDA, adjusted EBITDA and adjusted net profit presented to the most directly comparable financial measures calculated and presented in accordance with the IFRS for the periods indicated:

	For the six months ended		<i>Unit: RMB'000</i>
	30 June		Percentage
	2020	2019	changed
Reconcile of profit for the year to EBITDA and adjusted EBITDA profit for the period			
(Loss)/profit for the period	(111,971)	142,014	(179%)
Add:			
Income tax expense	1,301	2,761	(53%)
Finance costs	7,496	10,643	(30%)
Depreciation of property, plant and equipment	114,619	114,523	0%
Depreciation of right-of-use assets	3,898	3,092	26%
Amortisation of intangible assets	4,379	4,167	5%
EBITDA	19,722	277,200	(93%)
Add:			
Equity-settled share option expense	2,767	10,487	(74%)
Share award scheme expense	188,865	–	NA
Epidemic Donation	4,975	–	NA
Adjusted EBITDA	216,329	287,687	(25%)
(Loss)/profit for the period	(111,971)	142,014	(179%)
Add:			
Equity-settled share option expense	2,767	10,487	(74%)
Share award scheme expense	188,865	–	NA
Epidemic Donation	4,975	–	NA
Adjusted net profits	84,636	152,501	(45%)

The EBITDA of the Group decreased by around 93% from approximately RMB277.2 million for the six months ended 30 June 2019 to approximately RMB19.7 million for the six months ended 30 June 2020.

The adjusted EBITDA of the Group decreased by around 25% from approximately RMB287.7 million for the six months ended 30 June 2019 to approximately RMB216.3 million for the six months ended 30 June 2020.

The adjusted net profit of the Group decreased by around 45% from approximately RMB152.5 million for the six months ended 30 June 2019 to approximately RMB84.6 million for the six months ended 30 June 2020.

FINANCIAL POSITION

Current assets and liabilities and adjusted current assets and liabilities

Due to the nature of its businesses, the Group has a highly liquid balance sheet. Substantially all of the Group's assets and liabilities are due within one year. The Group receives, processes and transfers a significant amount of funds on behalf of its clients on a daily basis.

The following table sets forth the selected financial information from the consolidated statement of financial position of the Group as of the dates indicated:

	As of 30 June 2020	As of 31 December 2019	<i>Unit: RMB'000</i> Percentage changed
Current assets	9,635,706	9,418,164	2%
Current liabilities	8,176,643	8,040,794	2%
Net current assets	1,459,063	1,377,370	6%
Non-current assets	753,831	812,218	(7%)
Non-current liabilities	105,888	126,473	(16%)
Total equity	<u>2,107,006</u>	<u>2,063,115</u>	<u>2%</u>

The Group holds client funds in segregated accounts which are payable to its clients, also known as the client reserve funds. The amount of such client reserve funds fluctuates significantly from time to time based on the clients' business activities, payment volume, timing of clearing and settlement and other external factors that are largely unrelated to the financial condition of the Group but can cause significant changes to its balance sheet. As such, the Company believes the amount of its client reserve funds is not a meaningful indicator of its current assets and liabilities. Therefore, the Group presents the adjusted assets and liabilities in the following table to exclude the effect of client reserve funds as of the dates indicated:

Unit: RMB'000

	As of 30 June 2020	As of 31 December 2019	Percentage changed
Adjusted current assets ⁽¹⁾	1,748,728	1,647,951	6%
Adjusted current liabilities ⁽²⁾	700,706	652,375	7%
Adjusted net current assets ⁽³⁾	<u>1,048,022</u>	<u>995,576</u>	<u>5%</u>

Notes:

- (1) Adjusted current assets equal to total current assets less receivable on behalf of clients and cash received on behalf of clients.
- (2) Adjusted current liabilities equal to total current liabilities less payable on behalf of clients.
- (3) Adjusted net current assets equal to adjusted current assets less adjusted current liabilities.

The Group's adjusted net current assets as of 30 June 2020 amounted to approximately RMB1,048.0 million, increased by around 5% as compared to the adjusted net current assets of approximately RMB995.6 million as of 31 December 2019.

The Group's restricted cash decreased by around 34% from approximately RMB2,280.2 million as of 31 December 2019 to approximately RMB1,495.7 million as of 30 June 2020, primarily attributable to a decrease in client reserve funds. In addition, the Group's restricted cash as of 30 June 2020 also included security deposits for letters of guarantee and other deposits relating to its payment business.

CASH FLOW ANALYSIS

The following table sets forth the selected financial information from the consolidated statements of cash flow of the Group as of the dates indicated:

	For the six months ended 30 June		<i>Unit: RMB'000</i>
	2020	2019	Percentage changed
Net cash flow generated from operating activities	131,696	196,737	(33%)
Net cash flow generated from investment activities	85,701	129,920	(34%)
Net cash flow used in financing activities	<u>(152,648)</u>	<u>(184,611)</u>	<u>(17%)</u>
Net increase in cash and cash equivalents	64,749	142,046	(54%)
Cash and cash equivalents at the beginning of the relevant period	<u>1,366,816</u>	<u>1,514,966</u>	<u>(10%)</u>
Effect of foreign exchange rate changes, net	<u>16,214</u>	<u>2,145</u>	<u>656%</u>
Cash and cash equivalents at the end of the relevant period	<u><u>1,447,779</u></u>	<u><u>1,659,157</u></u>	<u><u>(13%)</u></u>

The Group's cash from operating activities mainly consists of the Group's revenue. The Group's net cash flow from operating activities decreased by around 33% to approximately RMB131.7 million for the six months ended 30 June 2020 from approximately RMB196.7 million for the six months ended 30 June 2019.

The Group's cash from investing activities mainly consists of the purchase of financial assets at fair value through profit or loss, property, plant and equipment and investment in an associate. The Group's net cash inflow in investing activities decreased by around 34% to approximately RMB85.7 million for the six months ended 30 June 2020 from approximately RMB129.9 million for the six months ended 30 June 2019, primarily attributable the change of wealth management products.

The Group's cash used in financing activities mainly consists of repayments of bank borrowings and payment on repurchase of shares. The Group's net cash outflow from financing activities decreased by around 17% to approximately RMB152.6 million for the six months ended 30 June 2020 from approximately RMB184.6 million for the six months ended 30 June 2019.

CAPITAL STRUCTURE

As of 30 June 2020, the total equity of the Group amounted to approximately RMB2,107.0 million, representing an increase of approximately RMB43.9 million as compared to the beginning of 2020, among which, (a) the equity interest attributable to the Shareholders amounted to approximately RMB2,109.1 million, representing an increase of approximately RMB45.7 million as compared to the beginning of 2020, which was primarily attributable to the loss of RMB 110.3 million for the half year ended 30 June 2020 and approximately RMB188.9 million of capital reserve for the Share Award Scheme and was partially offset by the repurchase of shares of the Company (the “**Shares**”) of RMB5.4 million and of approximately RMB107.5 million under the Share Award Scheme; and (b) the equity interest of minority Shareholders decreased by approximately RMB1.7 million due to the loss for the six months ended 30 June 2020.

As of 30 June 2020, the Company had an aggregated amount of 1,296,679,798 issued shares. The total market capitalization of the Company was HK\$2,969.4 million (calculated based on the closing price of the shares of the Company (the “**Shares**”) on 30 June 2020).

BANK LOANS

As of 30 June 2020, the aggregate balance of the Group’s interest-bearing bank loans was approximately RMB249.1 million, representing a decrease of approximately RMB40.1 million as compared to that of approximately RMB289.1 million at the beginning of 2020, primarily attributable to repayment of the liquidity loan agreements of Shanghai Pudong Development Bank amounting to RMB42.0 million with interest rates of 3.915% per annum, in June 2020, respectively.

INTEREST RATE RISK AND EXCHANGE RATE RISK

The Group’s exposure to changes in interest rates relates primarily to the Group’s investment portfolio and outstanding interest-bearing debt. While the Group is exposed to global interest rate fluctuations, the Group’s interest income and expense are most sensitive to fluctuations in China domestic interest rates. Changes in China domestic interest rates affect the interest earned on the Group’s cash, cash equivalents and other investments held with cash-management purposes, as well as interest paid on the Group’s interest-bearing debt. The Group has entered, and in the future may enter, into interest rate swaps to manage interest rate risk on its outstanding term debt. Interest rate swaps allow the Group to effectively convert fixed-rate payments into floating-rate payments or floating-rate payments into fixed-rate payments. During the six months ended 30 June 2020, for the Group’s floating-rate borrowings amounting to RMB20.0 million which were denominated in US dollars, we entered into an interest rate swap with this financial institution to hedge the interest rate risk relative to its interest. As save for that, the Group did not adopt any derivatives to hedge interest risk on other debts. As of 30 June 2020, approximately 67.9% of the borrowings were at fixed interest rate. To manage our interest rate risk, we optimise our debt portfolio from time to time.

The operations of the Group are mainly carried out in the PRC with most transactions settled in RMB, and the Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar and the Hong Kong dollar. Therefore, foreign exchange risk primarily arose from certain existing assets and liabilities, forecasted future cash flows and recognized assets and liabilities in the Group when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to, overseas business partners. The currency of the Group's cash and cash equivalents are mainly denominated in Renminbi, and others are denominated in United States dollar and Hong Kong dollar. The Group may enter into foreign currency forward and option contracts with financial institutions to protect against partial or all foreign exchange risks. The Group may choose not to hedge certain foreign exchange exposures for a variety of reasons including, but not limited to, accounting considerations or the prohibitive economic cost of hedging particular exposures. The Group regularly reviews its foreign exchange forward and option positions and underlying foreign currency exposures. As of 30 June 2020, the Group's borrowings are denominated in RMB except for borrowings amounting to RMB20.0 million which were denominated in US dollars. We entered into RMB/USD swap agreements with this financial institution to hedge the exchange rate risk relative to its principal and interest. In addition, in February 2020, the Group entered into RMB/USD swap agreements with a financial institution amounted to USD10.0 million for three months. The arrangement has been completed by the end of June 2020.

MORTGAGE OF THE GROUP'S ASSETS

As of 30 June 2020, the Group mortgaged its group assets as securities in favor of several banks to obtain certain loans. The total mortgaged group assets amounted to approximately RMB345.2 million.

CAPITAL EXPENDITURES AND INVESTMENT

The Company's capital expenditures primarily consist of expenditures for the purchase of property, plant and equipment, intangible assets. As of 30 June 2020, the capital expenditures of the Company was approximately RMB13.0 million, primarily attributable to expenses for the purchase of software and mobile POS terminals and other intangible assets.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 1 June 2018 (the "**Prospectus**"), the Company intends to use approximately 20% of the net proceeds from the global offering for pursuing selective acquisition of, or strategic investment in, payment technology companies, payment service providers and/or SaaS providers. The Company has been looking for proper acquisition or investment targets during its daily operation.

TREASURY MANAGEMENT

Our treasury management functions undertake the responsibility of cash management, liquidity planning and control, cost-effective capital provided to the Group, liaison with banks and other related institutions, investment in financial products, as well as mitigation of all financial risks such as interest rates and foreign exchange. The design of our treasury management functions aims to coordinate with the Group's long-term and short-term demands and comply with the criteria of proper governance.

CONTINGENT LIABILITIES

As of 30 June 2020, the Company did not have any material contingent liabilities.

KEY FINANCIAL RATIOS

	For the six months ended 30 June 2020	For the six months ended 30 June 2019	For the year ended 31 December 2019
Gross margin ⁽¹⁾	19.9%	24.6%	26.8%
Net profit margin ⁽²⁾	(6.5%)	7.6%	6.6%
Adjusted profit margin ⁽³⁾	5.0%	8.2%	8.2%
EBITDA margin	1.2%	14.8%	13.9%
Adjusted EBITDA margin	12.7%	15.4%	15.5%
	As of 30 June 2020	As of 30 June 2019	As of 31 December 2019
Gearing ratio ⁽⁴⁾	76.4%	90.3%	76.7%
Adjusted gearing ratio ⁽⁵⁾	N/A	N/A	N/A

Notes:

- (1) Gross profit margin equals gross profit divided by revenue and multiplied by 100%.
- (2) Net profit margin equals net profit for the year divided by revenue and multiplied by 100%.
- (3) Adjusted net profit margin equals adjusted net profit divided by revenue and multiplied by 100%.
- (4) Gearing ratio equals to net debt divided by total capital plus net debt. The Group includes, within net debt, interest-bearing bank and other borrowings, trade payables, other payables, deposits received and accruals and amounts due to related companies less cash and cash equivalents. Capital represents equity attributable to owners of the parent.

- (5) Adjusted gearing ratio equals to adjusted net debt divided by total capital plus adjusted net debt. The Group includes, within adjusted net debt, interest-bearing bank and other borrowings, trade payables, other payables, deposits received and accruals less payable on behalf of clients, cash and cash equivalents. Capital represents equity attributable to owners of the parent. N/A represents the adjusted gearing ratio is negative which indicates the Group is in a net cash position (i.e. has more cash and cash equivalents than its debt) which is usually taken as a good sign.

FUTURE PROSPECTS

Going forward, we will continue to built scenarios payments and independently research and develop SaaS products. We will dock with SaaS partners in a efficient manner through platforms and develop the capabilities of provision of prompt customized solution with a principle of different solutions for various customers in merchant service market of B-end, forming a business model for customer acquisition, empowering digital management and marketing services.

We will build a one-stop digital operation system covering partners, channel partners and customers; deepen the development and application of new technologies such as cloud-native and big front-end; and further promote the territorial data management and the whole link monitoring system, and fully launch digital office tools to improve management collaboration and efficiency.

We remain optimistic about our growth in the second half of the year, expecting a continued recovery in transaction size, an upward breakthrough in the number of daily transactions, and increasing revenue from SaaS businesses. In future, we will continuously deepen its digital transformation strategy to help merchants and channels enter into the digital era with our digital solution capabilities, our ability to apply and practice innovative technologies, and our unified and efficient platform products and operation capabilities.

OTHER INFORMATION

EMPLOYEES AND REMUNERATION

As at 30 June 2020, the Group had 970 employees. The staff costs, including Directors' emoluments and expense incurred in respect of the Share Award Scheme but excluding any contributions to pension scheme, increased by around 60.8% from approximately RMB231.8 million for the six months ended 30 June 2019 to approximately RMB372.7 million for the six months ended 30 June 2020.

In line with the performance of the Group and individual employees, the Group strives to offer a good working environment, a diversified range of training programs as well as an attractive remuneration package to its employees. The Group endeavours to motivate its employees with performance-based remuneration. On top of basic salary, the Group will reward employees with outstanding performance by way of cash bonuses, share options, honorary awards or a combination of all the above to further align the interests of the employees and the Group, to attract talented individuals, and to create long-term incentive for its employees.

The Company has adopted the pre-IPO share option scheme to provide incentives and rewards to certain eligible participants, details of which are set out in “Appendix IV — Statutory and General Information” of the Prospectus and the 2020 interim report of the Company to be published in September 2020.

The Company has also adopted the Share Award Scheme to recognise and motivate the contributions by its employees and give incentives thereto in order to retain them, as well as to attract suitable personnel for further development of the Group. Please refer to the announcement of the Company dated 16 August 2019 and the 2020 interim report of the Company for further details.

SUBSEQUENT EVENTS

There has been an outbreak of COVID-19 around the world.

The management of the Company believe that, based on the information available as of the date of the Historical Financial Information, the outbreak of COVID-19 would not result in a material disruption to the Group’s business operations or material impact on the financial position or financial performance of the Group.

It is uncertain when and whether COVID-19 could be contained globally. The above analysis is made by the management of the Company based on the currently available information concerning COVID-19. The management of the Company cannot assure that the outbreak of COVID-19 will not further escalate or have a material adverse effect on the Group’s results of operations.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company’s corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders.

For the six months ended 30 June 2020 (the “**Reporting Period**”), the Company has complied with the applicable code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) except for the following deviation:

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and not be performed by the same individual. Mr. ZHOU Ye is the Chairman of the Board and the Chief Executive Officer of the Company. With extensive experience in the industry and in corporate management, Mr. ZHOU is responsible for the overall strategic planning and general management and is contributive to our development and business expansion since our establishment in 2006. Considering the rapidly evolving industry in which the Group operates, the Chairman and Chief Executive Officer of the Company need to have a profound understanding and be equipped with extensive industry knowledge to stay abreast of market changes, so as to facilitate our business development. Our Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person, being Mr. ZHOU, is beneficial to the strategy formation and implementation, business prospects and operational efficiency of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-caliber individuals.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors’ dealings in the securities of the Company. Having made specific enquiry of all the Directors, each Director confirmed that he/she had complied with the required standards set out in the Model Code during the Reporting Period.

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

During the Reporting Period, the Company exercised its powers under the general mandate to repurchase the Shares granted by the shareholders of the Company to the Board, which shall expire on the conclusion of the next annual general meeting of the Company (the “**Share Repurchase Plan**”), and repurchased a total of 2,603,200 Shares on the Stock Exchange at an aggregate consideration of HK\$5,868,060. All of these repurchased Shares were subsequently cancelled.

The Board considers that the then trading price of the Shares did not reflect their intrinsic value and the business prospects as perceived by investors and that it presented good opportunities for the Company to repurchase Shares. The repurchases reflect the confidence of the Board and the management team in the long-term strategy and growth of the Company. Moreover, the Company believes that actively managing the capital structure and implementing the Share Repurchase Plan will optimize the Company’s capital structure, enhance earnings per Share and overall shareholder return. The Board considers that the Share Repurchase Plan is in the best interest of the Company and the shareholders of the Company as a whole.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the Reporting Period.

USE OF NET PROCEEDS FROM GLOBAL OFFERING

The Company was listed on the Stock Exchange on 15 June 2018. The net proceeds raised from the global offering were approximately HK\$1,592.5 million. During the Reporting Period, there was no change in the intended use of net proceeds as previously disclosed in the Prospectus.

As at 30 June 2020, the Company has utilized HK\$1,194.5 million of the net proceeds from the global offering. For the amounts not yet utilized, the Company will apply the remaining net proceeds in the manner set out in the Prospectus. As at the date of this announcement, other than those already disclosed in the Prospectus, the remaining proceeds shall be utilised within the next 2.5 years.

The following table sets forth a breakdown of the utilization of net proceeds as at 30 June 2020:

Unit: HK\$ million

	Net proceeds from the Global Offering	Utilisation as at 30 June 2020	Unutilised amount
Enhancing technology systems and research and development capability	477.8	302.8	174.9
Pursuing selective acquisitions of, or strategic investments in, payment technology companies, payment service providers and/or SaaS providers	318.5	95.5	223.0
Investing in the Group's direct sales channel in the tier-one and tier-two cities in China, to facilitate the acquisition and the support of key clients in selected industrial verticals	159.2	159.2	0.0
Further recruiting and cultivating talents and continuing to offer competitive compensation to the Group's existing employees	159.2	159.2	0.0
Fully repaying the principal amount and interests of certain bank borrowings	318.5	318.5	0.0
Working capital and general corporate uses	159.2	159.2	0.0
Total	1,592.5	1,194.5	397.9

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, namely Mr. WANG Hengzhong, Mr. LIU Jun and Ms. ZHANG Qi. Mr. WANG Hengzhong is the chairman of the Audit Committee.

The financial information for the six months ended 30 June 2020 set out in this announcement represents an extract from the interim condensed consolidated financial information, which is unaudited but has been reviewed by the Company's external auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants and by the Audit Committee. The Audit Committee was satisfied that the Company's unaudited financial information was prepared in accordance with applicable accounting standards.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at <http://www.hkexnews.hk> and on the website of the Company at www.huifu.com. The 2020 interim report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company in due course and will be published on the websites of the Company and the Stock Exchange.

By order of the Board
Huifu Payment Limited*
ZHOU Ye
Chairman

Shanghai, the PRC, 25 August 2020

As at the date of this announcement, the Board comprises Mr. ZHOU Ye, Ms. MU Haijie and Mr. JIN Yuan as executive directors, Mr. CHYE Chia Chow, Mr. ZHOU Joe and Ms. WANG Lihong as non-executive directors, and Mr. LIU Jun, Mr. WANG Hengzhong and Ms. ZHANG Qi as independent non-executive directors.

* *Incorporated in the Cayman Islands with limited liability under the names of Huifu Limited and 汇付天下有限公司*