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This announcement and the listing document referred to herein have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document) forms the basis for any contract or commitment whatsoever. For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

This announcement does not constitute an offer to sell or the solicitation of an offer to acquire, purchase or subscribe for any securities in the United States or in any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

*Neither this announcement nor anything herein forms the basis for any contract or commitment whatsoever. Neither this announcement nor any copy hereof may be taken into or distributed in the United States or other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or the securities laws of any other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the Company and its management, as well as financial statements. No public offer of securities referred to herein will be made in Hong Kong, the United States or any other jurisdiction.*

VCREDIT®
維信金科

VCREDIT Holdings Limited
維 信 金 科 控 股 有 限 公 司

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

(Stock Code: 2003)

US$100 Million 11.0% Senior Notes Due 2021
(Stock Code: 5064)

US$85 Million 11.0% Senior Notes Due 2022 (the "Notes")
(Stock Code: 40498)

PUBLICATION OF OFFERING MEMORANDUM

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Please refer to the offering memorandum dated November 27, 2020 (the "**Offering Memorandum**") appended herein in relation to the issuance of the Notes. The Offering Memorandum is published in English only. No Chinese version of the Offering Memorandum has been published.

Notice : VCREDIT Holdings Limited (the "**Company**") confirms that the Notes are intended for purchase by professional investors only (as defined in Chapter 37 of the Listing Rules) and have been listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Company confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong or elsewhere. Investors should carefully consider the risks involved.

The Offering Memorandum does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Memorandum must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Memorandum.

By order of the Board
VCREDIT Holdings Limited
Ma Ting Hung
Chairman

Hong Kong, December 4, 2020

As at the date of this announcement, the board of directors of the Company comprises Mr. Ma Ting Hung as the chairman and a non-executive director; Mr. Liu Sai Wang Stephen and Mr. Liu Sai Keung Thomas as executive directors; Ms. Shen Jing and Mr. Yip Ka Kay as non-executive directors; and Mr. Chen Penghui, Mr. Fang Yuan and Mr. Wu Chak Man as independent non-executive directors.

US$85,000,000

VCREDIT Holdings Limited
維 信 金 科 控 股 有 限 公 司

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

(Stock Code: 2003)

11.0% SENIOR NOTES DUE 2022
Issue Price: 93.702% plus accrued interest, if any

The 11.0% Senior Notes due 2022 (the "**Notes**") will be issued in an initial aggregate principal amount of US$8,057,000 and an additional aggregate principal amount of US$76,943,000 (pursuant to the Exchange Offer (as defined below)) and will bear interest from December 3, 2020 at 11.0% per annum payable semiannually in arrears on June 3, and December 3 of each year, beginning June 3, 2021. The Notes will mature on December 3, 2022.

The Notes are unsecured senior obligations of VCREDIT Holdings Limited (the "**Company**") guaranteed (the "**Subsidiary Guarantees**") by certain of its existing subsidiaries (the "**Subsidiary Guarantors**") other than (1) those organized under the laws of the PRC and (2) certain other subsidiaries specified in the "Description of the Notes." Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of the Company may be replaced by a limited-recourse guarantee (a "**JV Subsidiary Guarantee**"). We refer to the subsidiaries providing a JV Subsidiary Guarantee as "**JV Subsidiary Guarantors**."

We may, at our option, redeem the Notes in whole but not in part, at any time, at the redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 106.062% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided that* at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering. Upon the occurrence of a Change of Control (as defined under "*Description of the Notes*"), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will (1) be general obligations of the Company, (2) rank senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (3) at least *pari passu* in right of payment with the 2021 Notes and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law), (4) be guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described in the "Description of the Notes," (5) be effectively subordinated to all existing and future obligations of the Non-Guarantor Restricted Subsidiaries (as defined in the "Description of the Notes"), and (6) be effectively subordinated to all existing and future secured obligations of the Company to the extent of the collateral securing such obligations. However, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (as defined under "*Description of the Notes*"). See "Risk Factors —Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees."

For a more detailed description of the Notes, see "Description of the Notes" beginning on page 225.

Pursuant to the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the "**NDRC Circular**") issued by the National Development and Reform Commission of the PRC ("**NDRC**") on September 14, 2015 which came into effect on the same day, the Company has registered the issuance of the Notes with the NDRC and obtained a certificate from NDRC on December 3, 2018, which was renewed on September 27, 2020 evidencing such registration and undertakes to provide the requisite information on the issuance of the Notes to the NDRC within 10 business days after the issue date of the Notes.

Investing in the Notes involves risks. Furthermore, investors should be aware that the Notes are guaranteed by Subsidiary Guarantors which do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees and that there are various other risks relating to the Notes, the Company and its subsidiaries, their business and their jurisdictions of operations which investors should familiarize themselves with before making an investment in the Notes. See the section entitled "Risk Factors" beginning on page 18 and particularly page 62 for risks relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees.

Application will be made to The Stock Exchange of Hong Kong Limited ("**SEHK**") for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Professional Investors**"). This document is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Company confirms that the Notes are intended for purchase by Professional Investors only and will be listed on The Hong Kong Stock Exchange Limited on that basis. Accordingly, the Company confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on SEHK is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable U.S. state law. The Notes are being offered and sold by the Initial Purchasers only outside the United States in offshore transactions in compliance with Regulation S under the Securities Act. For a description of certain restrictions on resale or transfer, see "Transfer Restrictions" beginning on page 299.

The Notes will initially be represented by a global note in registered form without interest coupons attached (the "**Initial Global Note**"). On the Original Issue Date, the Initial Global Note will be deposited with a common depositary and registered in the name of the common depositary or its nominee for the accounts of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Any Additional Notes will be represented by additional global notes in registered form without interest coupons attached (the "**Additional Global Notes**" and, together with the Initial Global Note, the "**Global Notes**"). Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants on the Business Day following the settlement date against payment for value on the settlement date.

In addition, the Issuer has on November 18, 2020 made an offer to eligible holders of its US$100,000,000 11.0% Senior Notes due 2021 (ISIN: XS2013677351; COMMON CODE: 201367735) (the "**Old Notes**") to (i) exchange their Old Notes for a portion of the Notes and (ii) solicit consents from the eligible holders of the Old Notes to amend the terms of the indenture dated as of June 20, 2019 that governs the Old Notes, subject to the terms and conditions set out in an exchange offer memorandum prepared by the Issuer dated November 18, 2020 (the "**Exchange Offer**").

Sole Global Coordinator

Haitong International

Joint Lead Managers and Joint Bookrunners

Haitong International **Opus Capital**

The date of the offering memorandum is November 27, 2020

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THIS CONFIDENTIAL OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY NOTE OFFERED HEREBY TO ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF OUR COMPANY OR OUR SUBSIDIARIES OR THAT THE INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

IN CONNECTION WITH THIS OFFERING, HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED AND OPUS CAPITAL LIMITED, AS STABILIZING MANAGERS ON BEHALF OF THE INITIAL PURCHASERS, OR ANY PERSON ACTING FOR THE INITIAL PURCHASERS, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE STABILIZING MANAGERS ON BEHALF OF THE INITIAL PURCHASERS, AND NOT FOR OR ON BEHALF OF THE COMPANY. THIS OFFERING MEMORANDUM INCLUDES PARTICULARS GIVEN IN COMPLIANCE WITH THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED FOR THE PURPOSE OF GIVING INFORMATION WITH REGARD TO THE COMPANY, THE SUBSIDIARY GUARANTORS AND THE JV SUBSIDIARY GUARANTORS (IF ANY). THE COMPANY, THE SUBSIDIARY GUARANTORS AND THE JV SUBSIDIARY GUARANTORS (IF ANY) ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM AND CONFIRMS, HAVING MADE ALL REASONABLE ENQUIRIES, THAT TO THE BEST OF ITS KNOWLEDGE AND BELIEF THERE ARE NO OTHER FACTS THE OMISSION OF WHICH WOULD MAKE ANY STATEMENT HEREIN MISLEADING.

You should rely only on the information contained in this offering memorandum. We have not authorized anyone to provide you with information that is different from that contained in this offering memorandum. We are offering to sell, and seeking offers to buy, the Notes only in jurisdictions where offers and sales are permitted. The information contained in this offering memorandum is accurate only as of the date of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of the Notes. Our business, financial condition, results of operations and prospects may have changed since that date.

This offering memorandum is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Sole Global Coordinator, Joint Lead Managers and Joint Bookrunners, the Trustee, the Paying Agent or the Transfer Agent that any recipient of this offering memorandum should purchase the Notes. Each person receiving this Offering Memorandum acknowledges that such person has not relied on the Sole Global Coordinator, Joint Lead Managers and Joint Bookrunners, the Trustee, the Paying Agent, the Transfer Agent or on any person affiliated with the Sole Global Coordinator, Joint Lead Managers and Joint Bookrunners, the Trustee, the Paying Agent or the Transfer Agent in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Company, the

Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) and the merits and risks involved in investing in the Notes. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Notes.

To the fullest extent permitted by law, none of the Sole Global Coordinator, Joint Lead Managers and Joint Bookrunners, the Trustee, the Paying Agent, the Transfer Agent or any of their respective affiliates, directors or advisors accepts any responsibility for the contents of this offering memorandum. Each of the Sole Global Coordinator, Joint Lead Managers and Joint Bookrunners, the Trustee, the Paying Agent and the Transfer Agent or any of their respective affiliates, directors or advisors accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this offering memorandum or any such statement. None of the Sole Global Coordinator, Joint Lead Managers and Joint Bookrunners, the Trustee, the Paying Agent, the Transfer Agent or any of their respective affiliates, directors or advisors undertakes to review the financial condition or affairs of the Company or the Group during the life of the arrangements contemplated by this offering memorandum nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Sole Global Coordinator, Joint Lead Managers and Joint Bookrunners, the Trustee, the Paying Agent or the Transfer Agent.

This offering memorandum is highly confidential and has been prepared by us solely for use in connection with the proposed offering of the Notes. We reserve the right to withdraw the offering of the Notes at any time. We and the Joint Lead Managers also reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the Notes offered hereby.

This offering memorandum is personal to the offeree to whom it has been delivered and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Notes. Distribution of this offering memorandum by you to any person other than those persons, if any, retained to advise you with respect to this offering memorandum is unauthorized, and any disclosure of any of the contents of this offering memorandum, without our prior written consent, is prohibited. By accepting delivery of this offering memorandum, each offeree agrees to the foregoing and to make no photocopies or other reproductions of this offering memorandum.

Each offeree acknowledges that (i) such person has been afforded an opportunity to request from us and to review, and have received, all additional information considered by such person to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum, (ii) such person has not relied on the Joint Lead Managers or any person affiliated with the Joint Lead Managers in connection with such person's investigation of the accuracy of such information or such person's investment decision, and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantors, if any, (other than as contained in this offering memorandum) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the Joint Lead Managers.

Laws in certain jurisdictions may restrict the distribution of this offering memorandum and the offer and sale of the Notes. Persons into whose possession this offering memorandum or any of the Notes are delivered must inform themselves about, and observe, any such restrictions. Each prospective purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this offering memorandum and must obtain any consent, approval or permission required under any regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither we nor the Joint Lead Managers shall have any responsibility therefor.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed "Plan of Distribution" below.

IN MAKING AN INVESTMENT DECISION, YOU MUST RELY ON YOUR OWN EXAMINATION OF OUR BUSINESS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE NOTES, THE SUBSIDIARY GUARANTEES AND THE JV SUBSIDIARY GUARANTEES (IF ANY) HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND ANY APPLICABLE U.S. STATE SECURITIES LAWS OR EXEMPTION THEREFROM. YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. SEE "TRANSFER RESTRICTIONS."

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE JOINT LEAD MANAGERS, CITICORP INTERNATIONAL LIMITED (THE "TRUSTEE"), CITIBANK, N.A., LONDON BRANCH (THE "PAYING AGENT", THE "NOTE REGISTRAR" AND THE "TRANSFER AGENT", AND TOGETHER, THE "AGENTS") OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISORS, AS TO THE ACCURACY, COMPLETENESS OR SUFFICIENCY OF THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM, AND NOTHING CONTAINED IN THIS OFFERING MEMORANDUM IS, OR SHOULD BE RELIED UPON AS, A PROMISE, REPRESENTATION OR WARRANTY BY THE JOINT LEAD MANAGERS, THE TRUSTEE OR THE AGENTS, WHETHER AS TO THE PAST OR THE FUTURE. THE JOINT LEAD MANAGERS ASSUME NO RESPONSIBILITY FOR ITS ACCURACY, COMPLETENESS OR SUFFICIENCY OR FOR ANY STATEMENT MADE OR PURPORTED TO BE MADE BY THE JOINT LEAD MANAGERS OR ON THEIR BEHALF IN CONNECTION WITH THE COMPANY OR THE SUBSIDIARY GUARANTORS OR THE JV SUBSIDIARY GUARANTORS (IF ANY) ON THE ISSUE AND OFFERING OF THE NOTES. NONE OF THE JOINT LEAD MANAGERS, THE TRUSTEE OR THE AGENTS ACCEPT ANY RESPONSIBILITY FOR THE CONTENTS OF THIS OFFERING MEMORANDUM. EACH OF THE JOINT LEAD MANAGERS, THE TRUSTEE AND THE AGENTS ACCORDINGLY DISCLAIMS ALL AND ANY LIABILITY WHETHER ARISING IN TORT OR CONTRACT OR OTHERWISE WHICH IT MIGHT OTHERWISE HAVE IN RESPECT OF THIS OFFERING MEMORANDUM OR ANY SUCH STATEMENT.

Neither we nor the Joint Lead Managers or any of our or their respective representatives are making any representation to you regarding the legality of an investment in the Notes by you under applicable legal investment or similar laws. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own advisors as to legal, tax, business, financial and related aspects of the purchase of the Notes.

CERTAIN CONVENTIONS AND CURRENCY PRESENTATION

The statistics set forth in this offering memorandum relating to the PRC and the financial services industry in the PRC were taken or derived from various government and private publications. Neither we nor the Joint Lead Managers make any representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the statistics herein may be inaccurate and should not be unduly relied upon.

In this offering memorandum, references to "China" or the "PRC" are to the People's Republic of China, excluding Hong Kong, Macau and Taiwan except where the context requires otherwise; references to "US$" or "U.S. dollars" are to the lawful currency of the United States; references to "HK$" or "Hong Kong dollars" are to the lawful currency of Hong Kong; and references to "RMB" or "Renminbi" are to the lawful currency of China. We record and publish our financial statements in Renminbi. Solely for your convenience, certain Hong Kong dollar and Renminbi amounts in this offering memorandum have been converted into U.S. dollars and certain U.S. dollar amounts have been converted into Hong Kong dollar and Renminbi amounts, based on the exchange rate of HK$7.7500 = US$1.00 and RMB6.7896 = US$1.00, respectively, which was the noon buying rate as certified for customs purposes by the H.10 weekly statistical release of the Federal Reserve Board for cable transfers for Hong Kong dollars and Renminbi on September 30, 2020. No representation is made that the Hong Kong dollar or Renminbi amounts could have been, or could be, converted into U.S. dollars at that rate or at any other rate. See "Exchange Rate Information."

In this offering memorandum, the terms "we," "us," "Group" and "our" refer to VCREDIT Holdings Limited and its subsidiaries, the term "Company" refers to VCREDIT Holdings Limited individually, in each case unless the context otherwise requires, "Initial Purchasers" and "Joint Lead Managers" refer to Haitong International Securities Company Limited and Opus Capital Limited.

Unless the context otherwise requires, references to "2017", "2018" and "2019" in this offering memorandum are to our financial years ended December 31, 2017, 2018 and 2019, respectively.

References to the "2021 Notes" are to the US$100,000,000 11.0% Senior Notes due 2021.

References to "Asia Jumbo" are to Asia Jumbo Group Limited, a company established under the laws of BVI on January 6, 2016 and our direct wholly-owned subsidiary.

References to "Board" are to the board of Directors of the Company.

References to "BVI" are to the British Virgin Islands.

References to "CBIRC" are to the China Banking and Insurance Regulatory Commisssion, formerly known as the China Banking Regulatory Commission ("**CBRC**").

References to "CCRC" are to the Credit Reference Center of the People's Bank of China.

References to "Controlling Shareholder(s)" has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires refers to Mr. Ma and the holding companies directly wholly-owned by him, namely Skyworld-Best Limited, Wealthy Surplus Limited and Glory Global International Limited.

References to "CSRC" are to the China Securities Regulatory Commission.

References to "Director(s)" are to the director(s) of the Company.

References to "FOTIC" are to the China Foreign Economy and Trade Trust Co., Ltd. (中國對外經濟貿易信託有限公司).

References to "Founding Shareholders" are to Mr. Ma, Mr. Liu, Skyworld-Best Limited, Wealthy Surplus Limited, Glory Global International Limited and Magic Mount Limited.

References to "Listing Rules" are to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time.

References to "MIIT" are to the Ministry of Industry and Information Technology of China (中華人民共和國工業信息化部).

References to "MOFCOM" are to the Ministry of Commerce of China (中華人民共和國商務部).

References to "Mr. Liu" are to Mr. Liu Sai Wang Stephen (廖世宏), executive Director, and Chief Executive Officer of our Company and a Founding Shareholder.

References to "Mr. Ma" are to Mr. Ma Ting Hung (馬廷雄), non-executive Director, Chairman and Controlling Shareholder of our Company and a Founding Shareholder.

References to "PBOC" are to the People's Bank of China.

References to "Preferred Share(s)" are to our convertible and redeemable preferred shares, which were automatically converted into our ordinary shares upon the listing of our ordinary shares on the SEHK.

References to "SAFE" are to the State Administration of Foreign Exchange of China.

References to "SAT" are to the State Administration of Taxation.

References to "SEHK" are to The Stock Exchange of Hong Kong Limited.

References to "Shanghai Tiantian" are to Shanghai Tiantian Asset Management Co., Ltd. (上海添添資產管理有限公司), a company established under the laws of China on May 31, 2016 and our indirect wholly-owned subsidiary.

References to "VC Financial Technology" are to Vision Credit Financial Technology Co., Ltd. (上海維信薈智金融科技有限公司), a company established under the laws of China on April 14, 2008 and our indirect wholly-owned subsidiary.

References to "VC Guarantee" are to Vision Credit Financing Guarantee Co., Ltd. (維仕融資擔保有限公司), a company established under the laws of China on December 24, 2009 and our indirect wholly-owned subsidiary.

References to "VCREDIT Ventures" are to VCREDIT Ventures Limited, a company incorporated under the laws of the Cayman Islands on March 7, 2018 and our direct wholly-owned subsidiary.

References to "Vision Credit HK" are to Vision Credit Limited, a company incorporated under the laws of Hong Kong on March 14, 2006 and our direct wholly-owned subsidiary.

References to "Vision Financial Leasing" are to Vision Financial Leasing (Suzhou) Co., Ltd. (維信融資租賃(蘇州)有限公司), a company established under the laws of China on July 19, 2011 and our indirect wholly-owned subsidiary.

References to "Vision Financial Servicing" are to Hangzhou Vision Financial Servicing Co., Ltd. (杭州維仕金融服務有限公司), a company established under the laws of China on May 28, 2010. On October 10, 2018, we entered into an agreement to dispose of Vision Financial Servicing and the disposal was completed on December 31, 2018.

References to "Vision Small Loan Chengdu" are to Chengdu Weishi Microfinance Co., Ltd. (成都維仕小額貸款有限公司), a company established under the laws of China on December 8, 2011 and our indirect wholly-owned subsidiary.

References to "Vision Information Qingdao" are to Qingdao Vcredit Information Technology Management Co., Ltd. (青島維信信息科技管理有限公司), a company established under the laws of China on March 6, 2014 and our indirect wholly-owned subsidiary.

References to "Vision Small Loan Shanghai" are to Shanghai Jing'an Vision Small Loan Co., Ltd. (上海靜安維信小額貸款有限公司), a company established under the laws of China on September 16, 2014 and our indirect wholly-owned subsidiary.

In this offering memorandum, where information has been presented in thousands, millions or billions of units, amounts may have been rounded up or down. Totals of columns or rows in tables may not equal the apparent total of the individual items and actual numbers may differ from those contained in this offering memorandum due to rounding.

The English names of PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this offering memorandum. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate;
- our business and operating strategies and our ability to implement such strategies;
- the effectiveness of our internal control and risk management;
- our ability to develop and manage our operations and business;
- disruption caused by the coronavirus disease 2019 ("**COVID-19**") pandemic and government measures in response to the COVID-19 pandemic;
- competition for, among other things, capital, technology and skilled personnel; and
- all other risks and uncertainties described in the section headed "Risk Factors".

In some cases we use words such as "aim", "anticipate", "believe", "estimate", "expect", "going forward", "intend", "may", "plan", "potential", "predict", "project", "propose", "seek", "should", "will", "would" and other similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this offering memorandum, including statements regarding our strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. We can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements.

Furthermore, these forward-looking statements merely reflect our views with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, factors disclosed under the section headed "Risk Factors", beginning on page 18 of this offering memorandum and elsewhere in this offering memorandum and the following:

- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this offering memorandum, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this offering memorandum might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this offering memorandum are qualified by reference to this cautionary statement.

ENFORCEABILITY OF CIVIL LIABILITIES

We are an exempted company incorporated under the laws of the Cayman Islands with limited liability and operate principally in the PRC. As substantially all of our business is conducted, and substantially all of our assets are located, in the PRC, our operations are generally affected by and subject to the PRC legal system and PRC laws and regulations. All or substantially all of our directors and officers and the experts named herein are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us, any of the Subsidiary Guarantors or the JV Subsidiary Guarantors (if any), or such persons or to enforce against us, any of the Subsidiary Guarantors or the JV Subsidiary Guarantors (if any) or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

Since 1979, the PRC Government has promulgated laws and regulations in relation to general economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view towards developing a comprehensive system of commercial law. In particular, legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China. As a result of this activity to develop the legal system, the system of laws in China continues to evolve. However, even where adequate law exists, the enforcement of existing laws or contracts may be uncertain and sporadic. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedent. It may be difficult for investors to effect service of process upon us or our directors and officers. We have been advised by Jingtian & Gongcheng, our PRC legal adviser, that it is uncertain whether the courts of the PRC would (i) enforce against us, or our directors and officers, judgments obtained in courts or arbitration tribunals outside the PRC which are predicated upon the laws of jurisdictions other than the PRC, including the civil liability provisions of the U.S. federal or state securities laws or (ii) entertain original actions brought in the PRC against us, or our directors and officers, predicated upon U.S. federal or state securities laws.

We have similarly been advised by Harney Westwood & Riegels, our counsel as to Cayman Islands laws, that it is uncertain whether the courts of the Cayman Islands would (i) enforce against us judgments obtained in courts or arbitration tribunals outside the Cayman Islands which are predicated upon the laws of jurisdictions other than the Cayman Islands, including the civil liability provisions of U.S. federal or state securities laws or (ii) entertain original actions brought in the Cayman Islands against us predicated upon U.S. federal or state securities laws. Harney Westwood & Riegels have advised us that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon provided that: (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the recognition or enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

PRESENTATION OF FINANCIAL INFORMATION

The audited consolidated financial statements and related notes as of December 31, 2017, 2018 and 2019 and for the years ended 2017, 2018 and 2019 and the unaudited condensed consolidated interim financial information as of June 30, 2020, for the six months ended June 30, 2019 and 2020, as of September 30, 2020 and for the nine months ended September 30, 2019 and 2020, included elsewhere in the offering memorandum, have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), which differ in certain respects from generally accepted accounting principles in certain other countries. We also use certain non-IFRS financial measures to present our financial information in this offering memorandum.

We have adopted IFRS 9 "Financial Instruments" ("**IFRS 9**"), which took effect on January 1, 2018. The impact of the initial application of this new accounting standard is disclosed in note 2.2 to our audited consolidated financial statements as of and for the year ended December 31, 2018. The classification and measurement and impairment requirements of IFRS 9 are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. Therefore, our consolidated financial information as of and for the year ended 2017 may not be directly comparable to our consolidated financial information after January 1, 2018.

We have adopted IFRS 16 "Lease" ("**IFRS 16**"), which took effect on January 1, 2019. The impact of the initial application of this new accounting standard is disclosed in note 2.2 to our audited consolidated financial statements as of and for the year ended December 31, 2019. The recognition and measurement requirements of IFRS 16 are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. Therefore, our consolidated financial information as of and for the years ended 2017 and 2018 may not be directly comparable to our consolidated financial information after January 1, 2019.

Investors must therefore exercise caution when making comparisons of our consolidated financial figures and when evaluating our financial condition and results of operations. If applicable, potential investors should consult their own independent financial advisers for professional advice.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains definitions of certain terms used in this offering memorandum in connection with our Company and our business. These terms and their definitions may not correspond to standard industry definitions, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as our Company.

“ABSs”	asset-backed securities, which refer to financial securities backed by specific financial assets such as loans or other receivables, typically issued by a special-purpose vehicle through public or private offerings
“aggregate balance of outstanding principal of all loans to customers”	as of a specified date, the sum of the principal amount of all loans to customers that are not repaid in full, minus the written-off principal amount of loans to customers under which any payment of principal or interest is delinquent for 12 months or more
“alternative data”	any data other than the credit data that can be used to assess credit risk of a natural person, whether or not reported in such natural person’s credit records
“big data”	the use of advanced analytics techniques to process voluminous and diverse data sets to uncover hidden patterns, unknown correlations, market trends, customer preferences and other useful information that can help organizations make more-informed business decisions
“binary approve-or-reject decisioning”	a credit decisioning methodology under which loan applicants of a particular product are either approved with credit of the same interest rate or rejected
“CAGR”	compound annual growth rate, calculated by dividing the ending value by the beginning value of a period, raised to the power of one divided by the number of years within the period, and subtracting one from the subsequent result, or in formula form as follows:

$$\text{CAGR} = \left[\frac{\text{Ending Value}}{\text{Beginning Value}}\right]^{\left[\frac{1}{\text{Number of Years}}\right]} - 1$$

“cloud computing”	the shared computing resources and services that can be accessed on demand and deployed quickly with minimal management effort, often over the Internet, to achieve coherence and economies of scale

"cohort"	the set of loans that we grant or facilitate during a specified period of time
"Cohort-Based M3+ Delinquency Ratio"	as of a specified date, the Cohort-Based M3+ Delinquent Loans divided by the aggregate loan origination volume within the applicable cohort
"Cohort-Based M3+ Delinquent Loans"	as of a specified date, the aggregate balance of outstanding principal of all loans within the applicable cohort under which any payment of principal or interest is delinquent for 3 months or more up to 12 months
"credit data"	data with respect to financial history reported in a natural person's credit records that can be used to assess credit risk of such natural person
"effective variables"	variables that are necessary for, and used in, our credit assessment and risk-based pricing models
"feature engineering"	the process of transforming data into features to act as inputs for machine learning models
"GDP"	gross domestic product, which refers to a monetary measure of the market value of all finished goods and services produced within a country's border in a specific period of time
"IaaS"	infrastructure as a service, which refers to the delivery of computing resources, complemented by storage and networking capabilities, that are owned and hosted by a service provider and offered to customers on-demand
"ICP License"	Value-added Telecommunications Service Operating Permit for Internet information services
"installment credit"	a type of credit that grants a loan of a fixed principal amount on condition of repayment of the principal at regular intervals over a specified period until paid in full
"IT"	information technology
"loan guarantee"	a type of guarantee used to secure loans under which a guarantor promises to pay a lender principal and interest if the borrower does not
"loan originated by us"	loan granted or facilitated by us

"loan origination volume"	for a specified period of time, the aggregate amount of initial principal of loans that are granted or facilitated by us, funded through our direct lending, trust lending, credit-enhanced loan facilitation and pure loan facilitation structures
"machine learning"	the technology of driving computer systems to "learn" (i.e., progressively improve performance on a specific task) without being explicitly re-programmed by humans
"modular architecture"	the design of a system composed of separate components that can be connected together
"APR"	annualized rate for borrowing, calculated by dividing average monthly payment from borrowers during the applicable period by the initial loan origination amount, multiplied by 12
"OCR"	optical character recognition, which refers to the recognition of printed or written text characters by a computer
"official credit records"	credit history records maintained by the CCRC
"precision marketing"	a marketing technique that delivers messages to individuals or market segments who are identified as target users for specific products or services
"prime and near-prime borrowers"	as commonly understood and accepted in China's consumer finance industry, borrowers who are considered having the tendency to make financial repayments on time and in full and possessing official credit records and credit cards in good standing, which indicate prior performance of using credit wisely and handling financial obligations responsibly, typically with above-average credit scores under the relevant credit scoring model (for details of our practice of assigning credit scores under our own credit scoring model, which assigns varying points and weights to a number of credit-assessment factors that we review and consider from time to time to calculate credit scores and which is primarily based on credit data from official credit records, which have a shorter history as compared to those in the United States, see "Business — Our Borrowers — Borrower Base — Borrower Profile")
"registered users"	users who are registered with our mobile applications or have applied for our online-to-offline credit products
"repeat borrowers"	borrowers who had repaid at least one loan with us in full and borrowed at least one additional loan on a cumulative basis

"revolving credit"	a type of credit that typically specifies a maximum outstanding amount at any time and permits new borrowing up to that amount on condition that previously borrowed amounts are repaid on time
"risk-based pricing"	a credit-pricing methodology used by lenders that determines the interest and other fee rates of loans based on a prediction of the credit risk of a specific borrower
"SaaS"	software as a service, which refers to a software licensing model in which access to the software owned by a service provider is provided to customers on a subscription basis
"scorecard"	a credit scoring model that quantifies the credit risk of a borrower with the output of a credit score
"user case"	a scenario in which a user interacts with a product or service for a specific motivation
"variable"	a form or type of data used to organize data in a structured way for use as a factor in algorithms or models

SUMMARY

The following summary highlights information contained elsewhere in this offering memorandum.

Because this is only a summary, it does not contain all of the information that you should consider before deciding to invest in the Notes. You should read this entire offering memorandum carefully, including the "Risk Factors" section and our consolidated financial statements and related notes.

Overview

We are a leading independent online consumer finance service provider in China. We offer tailored consumer finance products to prime and near-prime borrowers who typically have bank accounts and credit cards but 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, to a lesser extent, we directly lend to borrowers. For the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we originated RMB24.5 billion, RMB20.8 billion, RMB33.7 billion, RMB13.3 billion and RMB8.7 billion of loans, respectively. Following our initial public offering, our shares have been listed on the Main Board of the SEHK since June 21, 2018 under stock code 02003, and our market capitalization was approximately HK$1.8 billion (US$0.2 billion) as of October 30, 2020.

Some of our defining characteristics that we believe are critical to our success include:

- focus on borrowers with income and existing official credit records;
- centered on "credit-plus-alternative" data;
- effective risk-based pricing capabilities;
- sustainable, license-driven business model; and
- long-standing funding partnerships with licensed financial institutions.

We primarily offer two lines of credit products, both of which are installment-based:

- *Credit card balance transfer products.* Our credit card balance transfer products allow credit card holders to transfer the outstanding balances of their credit cards to our credit products to bridge their short-term liquidity management needs.

- *Consumption credit products.* Our consumption credit products provide consumers with a variety of installment credit solutions tailored for specific user cases.

During the years ended 2017 and 2018, we also offered online-to-offline credit products. On October 10, 2018, we entered into an agreement to dispose of the subsidiary that operates our online-to-offline business platform and the disposal was completed on December 31, 2018. Following the disposal, we no longer operate the online-to-offline business platform, but we believe that we continue to serve the need of substantially the same group of borrowers through our credit card balance transfer products and consumption credit products.

Our total income was RMB2.7 billion, RMB2.7 billion, RMB3.9 billion, RMB1.2 billion and RMB0.7 billion for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively. We recorded operating profit of RMB347.4 million, RMB101.6 million, RMB154.4 million for the years ended 2017, 2018 and 2019, respectively, operating loss of RMB1.3 billion for the six months ended June 30, 2020 and operating profit of RMB0.1 billion for the three months ended September 30, 2020. We recorded net loss of RMB1.0 billion, net loss of RMB1.0 billion, net profit of RMB64.8 million, net loss of RMB1.1 billion and net profit of RMB90.4 million for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively. Excluding the impact of fair value loss of our Preferred Shares and our share-based compensation expenses, we had adjusted net profit of RMB292.5 million, adjusted net profit of RMB295.8 million, adjusted net profit of RMB368.2 million, adjusted net loss of RMB1.0 billion and adjusted net profit of RMB109.7 million for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively. For further details of our adjusted net (loss)/profit, see "Management's Discussion and Analysis — Consolidated Income Statement" and "Management's Discussion and Analysis — Non-IFRS Measures."

Recent Developments

COVID-19 Pandemic

The COVID-19 pandemic which began at the end of 2019 has affected millions of individuals and adversely impacted national economies worldwide, including China. Cities in China where we have significant operations imposed travel restrictions in an effort to curb the spread of COVID-19 which is highly infectious. The outbreak of the COVID-19 pandemic and the subsequent measures taken to restrict its spread among the population, such as social distancing and lockdown, have constrained the lives of all and severely affected the business activities and economic outlook, with no exceptions for the consumer finance sector in China. The COVID-19 pandemic related lockdown and social distancing measures implemented across cities in China caused a slowdown in consumer consumption activities, which in turn weakened credit demand and asset quality. The various levels of interruption and suspension of normal daily activities for a significant part of the first half of 2020 increased the operational challenges of participants in the Chinese consumer finance sector and forced the adoption of more prudent policies to prevent asset quality deterioration and to mitigate increased credit risk. During the six months ended June 30, 2020, our business has been affected by the COVID-19 pandemic outbreak and it has been the principal contributor to our reported loss in our interim results for the period. However, as the impact of the COVID-19 outbreak gradually reduced and our operations began to improve and recover in the second quarter of 2020, we have recorded a profit of RMB90.4 million for the three months ended September 30, 2020, an increase of 96.6% compared to RMB46.0 million for the three months ended September 30, 2019.

The PRC central and local governments have taken various measures to manage cases and reduce potential spread and impact of infection, and further introduced various policies to boost the economy and stimulate the local property markets. Since June 2020, China and some other countries gradually lifted stay-at home orders and began to resume work and school at varying levels and scopes. However, since June 2020 more than 100 new cases have been reported in Beijing and several other provinces. Strict measures in certain locations have been imposed again to curb this potential resurgence. Given the uncertainties as to the development of the COVID-19 outbreak at the moment, it is difficult to predict how long these conditions will persist and the extent to which we may be affected. We cannot assure you that our business, financial condition and results of operations will not be materially and adversely affected. See "Risk Factors — Risks Relating to Our Business and Industry — Our business has been and is likely to continue to be materially adversely affected by the outbreak and resurgence of COVID-19 in China."

Share Repurchase

During the period from July 1, 2020 to October 30, 2020, we repurchased and cancelled 4,917,000 shares on the open market with an aggregate value of approximately HK$21.1 million (US$2.7 million). The repurchase was funded by cash on hand.

Exchange Offer of the 2021 Notes

Concurrent with the offering of the Notes, we are offering to exchange (the "**Exchange Offer**") any and all of our outstanding 2021 Notes for the Notes and soliciting consents from the holders of the 2021 Notes to amend the terms of, and grant certain waivers under the terms of, the indenture that governs the 2021 Notes, upon the terms and subject to the conditions set forth in the exchange offer memorandum, dated November 18, 2020 (the "**Exchange Offer Memorandum**"). The Exchange Offer will expire at 4:00 p.m., London time, on November 25, 2020, unless extended or earlier terminated in our sole discretion.

Our Competitive Strengths

We believe the following competitive strengths contribute to our success and differentiate us from our competitors:

- Leading market position with proven track record and unique market focus
- Robust credit risk management capability enhanced by cutting-edge technology
- Deep collaboration with business partners delivering valuable data and efficient access to borrowers
- Long-term partnerships with licensed financial institutions providing access to sustainable and scalable funding
- Experienced management team with structured talent acquisition

Our Strategies

To achieve our mission, we plan to pursue the following business strategies:

- Continue to carry out our technology-driven strategy to improve our risk management capabilities
- Strengthen compliance under changing regulatory environment
- Take further action on costs in response to the weaker revenue environment, continue on-going cost saving initiatives and reduce operating expenses

- Foster relationships with financial institutions to export our advantages in technologies

- Enhance our cooperation structure with funding partners to optimize our cash flow

Corporate Information

We are an exempted company registered by way of continuation in the Cayman Islands with limited liability. In June 2018, we listed our ordinary shares on the Main Board of the SEHK. Our head office and principal place of business is located at Suite 1918, 19/F, Two Pacific Place, 88 Queensway, Hong Kong, and our telephone number is +852 2918 5500. Our website address is ***www.vcredit.com***. Information contained on our website does not form part of this offering memorandum.

List of Group Entities in Our Corporate Structure

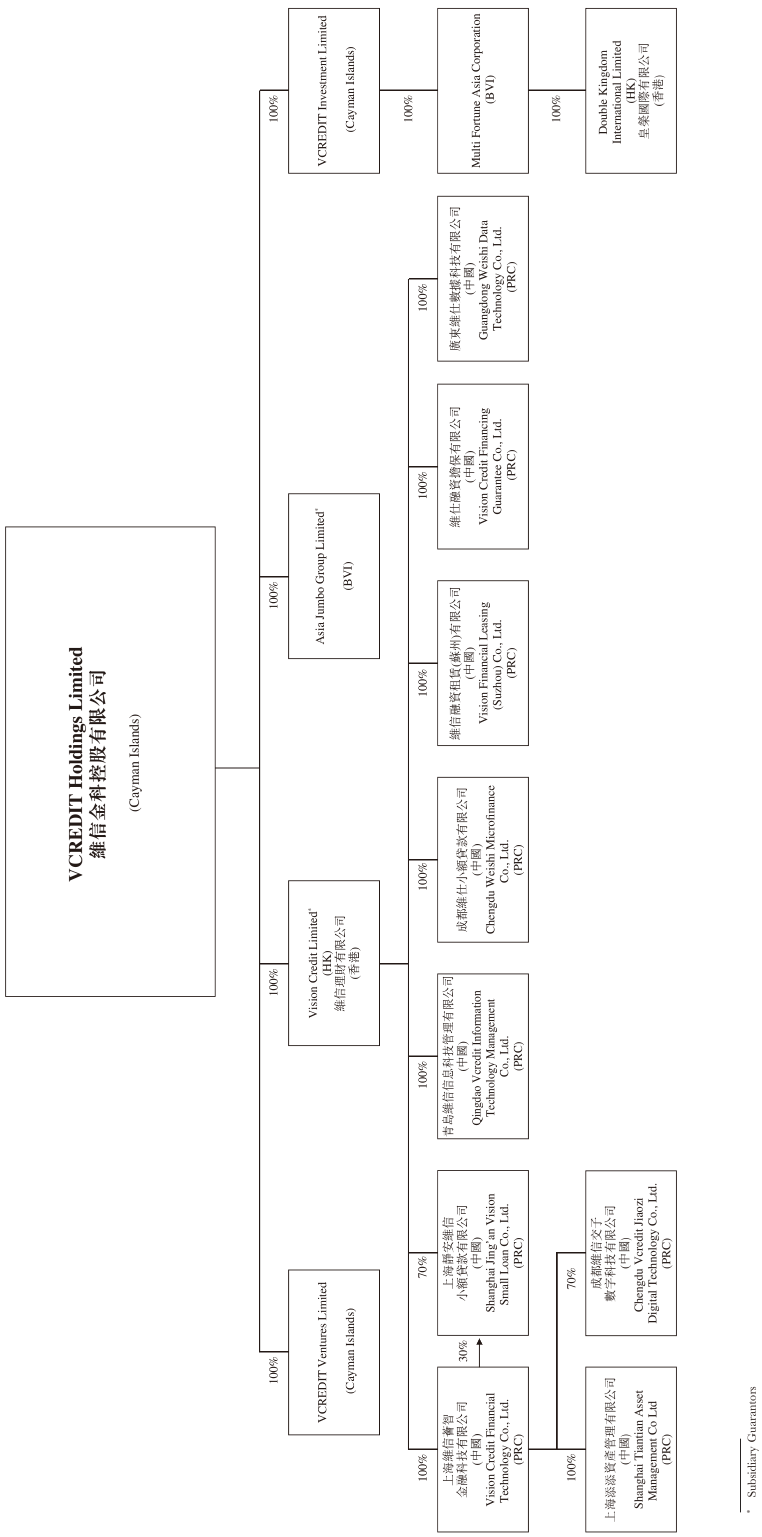
The following list includes all entities in our corporate structure as of the date of this offering memorandum.

English name of entity	Chinese name of entity	Place of incorporation/ registration
VCREDIT Holdings Limited	維信金科控股有限公司	Cayman Islands
VCREDIT Ventures Limited	N/A	Cayman Islands
VCREDIT Investment Limited	N/A	Cayman Islands
Vision Credit Limited	維信理財有限公司	Hong Kong
Double Kingdom International Limited	皇榮國際有限公司	Hong Kong
Asia Jumbo Group Limited	N/A	BVI
Multi Fortune Asia Corporation	N/A	BVI
Vision Credit Financial Technology Co., Ltd.*	上海維信薈智金融科技有限公司	PRC
Vision Credit Financing Guarantee Co., Ltd.*	維仕融資擔保有限公司	PRC
Qingdao Vcredit Information Technology Management Co., Ltd. *	青島維信信息科技管理有限公司	PRC
Chengdu Weishi Microfinance Co., Ltd.*	成都維仕小額貸款有限公司	PRC
Vision Financial Leasing (Suzhou) Co., Ltd.*	維信融資租賃(蘇州)有限公司	PRC
Shanghai Jing'an Vision Small Loan Co., Ltd.*	上海靜安維信小額貸款有限公司	PRC
Guangdong Weishi Data Technology Co., Ltd.*	廣東維仕數據科技有限公司	PRC
Shanghai Tiantian Asset Management Co., Ltd.*	上海添添資產管理有限公司	PRC
Chengdu Vcredit Jiaozi Digital Technology Co., Ltd.*	成都維信交子數字科技有限公司	PRC

* *English names of entities incorporated in the PRC provided for information purposes only*

Corporate Structure

The following diagram illustrates our corporate structure as of the date of this offering memorandum.



SUMMARY DESCRIPTION OF NOTES

The following summary is provided solely for your convenience. This summary is not intended to be complete. You should read the full text and more specific details contained elsewhere in this offering memorandum. For a more detailed description of the Notes, see "Description of the Notes."

Company	VCREDIT Holdings Limited.
Notes Offered	US$8,057,000 aggregate principal amount and an additional US$76,943,000 aggregate principal amount (pursuant to the Exchange Offer) of 11.0% Senior Notes due 2022 (the "**Notes**").
Offering Price	93.702% of the principal amount of the Notes
Original Issue Date	December 3, 2020
Maturity Date	December 3, 2022
Interest	The Notes will bear interest from December 3, 2020 at the rate of 11.0% per annum, payable semi-annually in arrears.
Interest Payment Dates	June 3 and December 3 of each year, commencing June 3, 2021
Ranking of the Notes	The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the 2021 Notes and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under "*Description of the Notes — The Subsidiary Guarantees and the JV Subsidiary Guarantees*" and in "*Risk Factors — Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees*";
- effectively subordinated to all existing and future obligations of the Non-Guarantor Restricted Subsidiaries (defined below); and

- effectively subordinated to all existing and future secured obligations of the Company to the extent of the collateral securing such obligations.

Subsidiary Guarantees.	The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries (as defined under "*Description of the Notes — Definitions*") other than (i) those Restricted Subsidiaries organized under the laws of the PRC and (ii) the Initial Non-Guarantor Restricted Subsidiaries specified in "Description of the Notes." The Notes will initially be guaranteed on the Original Issue Date by Vision Credit Limited and Asia Jumbo Group Limited (each an "**Initial Guarantor**"). Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. All of the Initial Guarantors are holding companies that do not have significant operations. Any future Restricted Subsidiary (other than subsidiaries organized under the laws of the PRC), will provide a guarantee of the Notes immediately upon becoming a Restricted Subsidiary. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary (and its Restricted Subsidiaries) organized outside the PRC (an "**Offshore Restricted Subsidiary**") not provide a Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary (an "**Offshore Non-Guarantor Subsidiary**"), *provided that*, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Offshore Non-Guarantor Subsidiaries do not account for more than 10% of the Total Assets of the Company. A Subsidiary Guarantee may be released in certain circumstances. See "Description of the Notes — Release of the Subsidiary Guarantees."
Ranking of Subsidiary Guarantees.	The Subsidiary Guarantee of each Subsidiary Guarantor: • is a general obligation of such Subsidiary Guarantor; • is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;

- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;

- ranks at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); and

- is effectively subordinated to all existing and future obligations of the Company, Non-Guarantor Subsidiaries and the Unrestricted Subsidiaries.

JV Subsidiary Guarantees . . . . In the case of a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing Capital Stock or the issuance of new Capital Stock, no less than 20% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase Capital Stock of an entity and designate such entity as a Restricted Subsidiary, the Company may, subject to certain conditions and concurrently with the consummation of such sale or purchase, provide a JV Subsidiary Guarantee (as defined below) instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC.

No JV Subsidiary Guarantee exists as of the Original Issue Date.

See "Risk Factors — Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees."

Ranking of JV Subsidiary Guarantees . . . . The JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;

- will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be enforceable only up to the JV Entitlement Amount;

- will be effectively subordinated to the secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;

- will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to the JV Entitlement Amount, and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and

- will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured and unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated Indebtedness pursuantto applicable law).

Use of Proceeds . . . . We intend to use the net proceeds from this offering primarily for general working capital purposes.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest such net proceeds in "Temporary Cash Investments" as defined under "*Description of the Notes*."

Optional Redemption of the Notes . . We may, at our option, redeem the Notes in whole but not in part, at any time, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 106.062% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided that* at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Redemption of the Notes for Taxation Reasons	Subject to certain exceptions and as more fully described herein, the Company may redeem the Notes, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws or certain other circumstances. See "Description of the Notes — Redemption for Taxation Reasons."
Withholding Tax; Additional Amounts	All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under "*Description of the Notes — Consolidation, Merger and Sale of Assets*") or an applicable Subsidiary Guarantor or JV Subsidiary Guarantor is organized or resident for tax purposes or any political subdivision or taxing authority thereof or therein (each, as applicable, a "**Relevant Taxing Jurisdiction**") or any jurisdiction through which payment is made or any political subdivision or taxing authority thereof or therein (together with the Relevant Taxing Jurisdictions, the "**Relevant Jurisdictions**"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except in the circumstances specified in "*Description of the Notes — Additional Amounts*."
Change of Control	Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "**Change of Control Offer**") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the Offer to Purchase Payment Date (as defined in clause (2) of the definition of "**Offer to Purchase**").

Covenants	The Notes, the Indenture governing the Notes and the Subsidiary Guarantees will limit the Company's ability and the ability of its Restricted Subsidiaries to, among other things: • incur or guarantee additional indebtedness and issue disqualified or preferred stock; • declare dividends on its capital stock or purchase or redeem capital stock; • make investments or other specified restricted payments; • issue or sell capital stock of Restricted Subsidiaries; • guarantee indebtedness of Restricted Subsidiaries; • sell assets; • create liens; • enter into sale and leaseback transactions; • enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans; • enter into transactions with shareholders or affiliates; and • effect a consolidation or merger. These covenants are subject to a number of important qualifications and exceptions described in "Description of the Notes — Certain Covenants."
Transfer Restrictions	The Notes, the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions."
Events of Default	Certain events will permit acceleration of the principal of the Notes (together with all interest and additional amounts accrued and unpaid thereon). These events include, among others, defaults with respect to payments of principal of, premium, if any, or interest on, the Notes. See "*Description of the Notes — Events of Default*."

Form, Denomination and Registration	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US$200,000 of principal amount and integral multiples of US$1,000 in excess thereof and will be initially represented by the Initial Global Note deposited with a common depositary and registered in the name of the common depositary or its nominee. Beneficial interests in the Initial Global Note will be shown on, and transfer thereof will be effected only through, the records maintained by Euroclear and Clearstream.
Book-Entry Only	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants. For a description of certain factors relating to clearance and settlement, see "Description of the Notes — Book-Entry; Delivery and Form."
Delivery of the Notes	The Company expects to make delivery of the Notes, against payment in same-day funds on or about December 3, 2020, which the Company expects will be the fourth business day following the date of this offering memorandum referred to as "T+4." You should note that initial trading of the Notes may be affected by the T+4 settlement. See "Plan of Distribution."
Trustee	Citicorp International Limited
Principal Paying Agent	Citibank, N.A., London Branch
Registrar and Transfer Agent	Citibank, N.A., London Branch
Listing	The Company will seek a listing of the Notes by way of debt issue to Professional Investors only on the SEHK. A confirmation of the eligibility of the listing of the Notes has been received from the SEHK.
Securities Codes	**ISIN**: XS2263287935; **Common Code**: 226328793; **LEI Number**: 549300UM6P7HTFMNQY83 Only Notes evidenced by the Initial Global Note have been accepted for clearance through Euroclear and Clearstream.
Governing Law	The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see "Risk Factors."

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary consolidated statements of comprehensive income for the years ended 2017, 2018 and 2019 and summary consolidated statements of financial position data as of December 31, 2017, 2018 and 2019 (except for the non-IFRS measures) have been derived from our audited consolidated financial statements and related notes included elsewhere in this offering memorandum. The following summary consolidated statements of comprehensive income for the six months ended June 30, 2019 and 2020 and summary consolidated statements of financial position data as of June 30, 2020 and September 30, 2020 (except for the non-IFRS measures) have been derived from our unaudited condensed consolidated interim financial information and related notes included elsewhere in this offering memorandum. The unaudited consolidated financial information for the three months ended September 30, 2019 and 2020 presented in this offering memorandum has been derived from the unaudited condensed consolidated interim financial information for the nine months ended September 30, 2020 included elsewhere in this offering memorandum. Results from the six months ended June 30, 2020 and the three months ended September 30, 2020 are not indicative of results for the full year. You should read the summary consolidated financial data in conjunction with the audited consolidated financial statements and related notes and the unaudited condensed consolidated interim financial information and related notes, "Selected Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum. We have prepared our consolidated financial information in accordance with IFRS, which differs in certain material respects from U.S. GAAP.

We have adopted IFRS 9 "Financial Instruments" ("**IFRS 9**"), which took effect on January 1, 2018. The impact of the initial application of this new accounting standard is disclosed in note 2.2 to our audited consolidated financial statements as of and for the year ended 2018. The classification and measurement and impairment requirements of IFRS 9 are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. Also, certain figures in the consolidated financial information as of and for the year ended December 31, 2018 have been reclassified, or restated, to conform to the presentation for the year ended December 31, 2019. Please refer to the annual report as of and for the year ended December 31, 2019 (the "**2019 annual report**") for the figures as of and for the year ended December 31, 2018 and note 40 of the 2019 annual report. Therefore, our consolidated financial information as of and for the year ended 2017 may not be directly comparable to our consolidated financial information after January 1, 2018.

We have adopted IFRS 16 "Leases" ("**IFRS 16**"), which took effect on January 1, 2019. The impact of the initial application of this new accounting standard is disclosed in note 2.2 to our Group's audited consolidated financial statements as of and for the year ended December 31, 2019. The recognition and measurement requirements of IFRS 16 are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. Therefore, our consolidated financial information as of and for the years ended 2017 and 2018 may not be directly comparable to our consolidated financial information after January 1, 2019.

Investors must therefore exercise caution when making comparisons of our consolidated financial figures and when evaluating our financial condition and results of operations. If applicable, potential investors should consult their own independent financial advisers for professional advice.

Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,						For the Six Months Ended June 30,				For the Three Months ended September 30,			
	2017		2018[3]		2019		2019		2020		2019		2020	
	RMB'000	*% (of total income)*	*RMB'000*	*% (of total income)*	*RMB'000*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*
Interest type income	N/A	N/A	2,930,339	107.1	2,642,081	68.4	1,152,633	62.0	1,310,586	108.9	665,493	64.6	406,007	55.9
Interest income	3,254,516	120.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Less: interest expenses	(918,226)	(33.9)	(974,770)	(35.6)	(862,174)	(22.3)	(395,939)	(21.3)	(446,484)	(37.1)	(219,777)	(21.3)	(152,099)	(20.9)
Net interest type income	N/A	N/A	1,955,569	71.5	1,779,907	46.1	756,694	40.7	864,102	71.8	445,716	43.3	253,908	35.0
Net interest income	2,336,290	86.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Loan facilitation service fees	83,916	3.1	269,832	9.8	1,247,377	32.3	572,865	30.8	238,173	19.8	540,694	52.5	249,336	34.3
Other income	286,176	10.6	511,182	18.7	837,073	21.6	530,660	28.5	101,551	8.4	43,292	4.2	223,358	30.7
Total income	**2,706,382**	**100.0**	**2,736,583**	**100.0**	**3,864,357**	**100.0**	**1,860,219**	**100.0**	**1,203,826**	**100.0**	**1,029,702**	**100.0**	**726,602**	**100.0**
Origination and servicing expenses	(607,614)	(22.5)	(865,581)	(31.6)	(709,509)	(18.4)	(301,884)	(16.2)	(370,340)	(30.8)	(231,909)	(22.5)	(232,991)	(32.1)
Sales and marketing expenses	(68,963)	(2.5)	(26,117)	(1.0)	(32,229)	(0.8)	(14,699)	(0.8)	(8,781)	(0.7)	(7,607)	(0.7)	(4,522)	(0.6)
General and administrative expenses	(181,747)	(6.7)	(502,369)	(18.4)	(505,424)	(13.1)	(281,016)	(15.1)	(153,200)	(12.7)	(122,984)	(11.9)	(64,651)	(8.9)
Research and development expenses	(74,379)	(2.7)	(74,058)	(2.7)	(92,392)	(2.4)	(38,922)	(2.1)	(36,900)	(3.1)	(24,606)	(2.4)	(16,089)	(2.2)
Impairment losses/Credit impairment losses	(1,417,439)	(52.4)	(54,348)	(2.0)	(309,101)	(8.0)	(124,161)	(6.7)	(165,008)	(13.7)	(129,037)	(12.5)	(53,871)	(7.4)
Fair value change of loans to customers	N/A	N/A	(1,130,058)	(41.3)	(2,058,482)	(53.3)	(1,040,106)	(55.9)	(1,800,107)	(149.5)	(416,864)	(40.5)	(251,607)	(34.6)
Other (losses)/gains, net	(8,840)	(0.4)	17,583	0.6	(2,851)	(0.1)	(2,068)	(0.1)	(8,553)	(0.7)	(16,308)	(1.6)	24,762	3.4
Operating profit/(loss)	**347,400**	**12.8**	**101,635**	**3.6**	**154,369**	**3.9**	**57,363**	**3.1**	**(1,339,063)**	**(111.2)**	**80,387**	**7.9**	**127,633**	**17.6**
Share of net (loss)/profit of associates accounted for using the equity method	(6,368)	(0.2)	(2,900)	(0.1)	9,962	0.3	992	0.1	(11,235)	0.9	445	0.0	104	0.0
Fair value loss of Preferred Shares	(1,285,496)	(47.5)	(1,047,156)	(38.3)	—	—	—	—	—	—	—	—	—	—
(Loss)/Profit before income tax	**(944,464)**	**(34.9)**	**(948,421)**	**(34.8)**	**164,331**	**4.2**	**58,355**	**3.2**	**(1,350,298)**	**(112.1)**	**80,832**	**7.9**	**127,737**	**17.6**
Income tax (expense)/credit	(58,669)	(2.2)	(78,532)	(2.9)	(99,541)	(2.6)	(52,181)	(2.8)	269,070	22.4	(34,822)	(3.4)	(37,298)	(5.1)
(Loss)/Profit for the year/period[1]	**(1,003,133)**	**(37.1)**	**(1,026,953)**	**(37.7)**	**64,790**	**1.6**	**6,174**	**0.4**	**(1,081,228)**	**(89.7)**	**46,010**	**4.5**	**90,439**	**12.5**
Non-IFRS Measure														
Adjusted net profit/(loss) (unaudited)[2]	292,489	10.8	295,813	10.8	368,208	9.5	192,780	10.4	(1,042,048)	(86.6)	104,584	10.2	109,651	15.1

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 profit/(loss) as profit/(loss) for the year/period excluding our fair value loss of Preferred Shares and our share-based compensation expenses. Adjusted net profit/(loss) is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net profit/(loss) 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 below "— Non-IFRS Measures" and the section headed "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-IFRS Measures."

(3) Certain figures in the consolidated statement of comprehensive income for the year ended December 31, 2018 have been reclassified, or restated, to conform to the presentation for the year ended December 31, 2019. Please refer to the 2019 annual report for the figures for the year ended December 31, 2018.

Non-IFRS Measures

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Operating profit/(loss)	347,400	101,635	154,369	57,363	(1,339,063)	80,387	127,633
Add:							
Share-based compensation expenses	10,126	275,610	303,418	186,606	39,180	58,574	19,212
Listing expenses	6,869	49,870	—	—	—	—	—
Non-IFRS Measure							
Adjusted operating profit/(loss) (unaudited)[1]	**364,395**	**427,115**	**457,787**	**243,969**	**(1,299,883)**	**138,961**	**146,845**

Note:

(1) We define adjusted operating profit/(loss) as operating profit/(loss) excluding our share-based compensation expenses and listing expenses. Adjusted operating profit/(loss) is not a measure required by, or presented in accordance with, IFRS. The use of adjusted operating profit/(loss) 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-IFRS Measures."

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 years/periods:

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
(Loss)/Profit for the years/periods	(1,003,133)	(1,026,953)	64,790	6,174	(1,081,228)	46,010	90,439
Add:							
Fair value loss of Preferred Shares	1,285,496	1,047,156	—	—	—	—	—
Share-based compensation expenses	10,126	275,610	303,418	186,606	39,180	58,574	19,212
Non-IFRS Measure							
Adjusted net profit/(loss)	**292,489**	**295,813**	**368,208**	**192,780**	**(1,042,048)**	**104,584**	**109,651**

,Consolidated Statements of Financial Position

	As of December 31,			As of June 30,	As of September 30,
	2017	2018[2]	2019	2020	2020
		RMB'000		*(unaudited)*	*(unaudited)*
Assets					
Cash and cash equivalents	568,196	1,050,111	2,169,522	1,813,986	1,352,627
Restricted cash	143,570	127,902	264,584	248,248	238,313
Loans to customers at amortized cost	11,479,696	—	—	—	—
Loans to customers at fair value through profit or loss	N/A	8,863,246	9,457,673	5,338,308	4,168,741
Contract assets	98,845	154,143	523,022	221,727	296,242
Guarantee receivables	130,073	206,146	621,248	616,392	702,020
Financial assets at fair value through profit or loss	110,545	—	280	20,282	20,284
Investments accounted for using the equity method	30,784	27,684	37,430	20,462	20,566
Deferred income tax assets	279,860	413,117	468,256	740,352	783,424
Intangible assets	13,488	16,814	22,175	24,625	30,990
Property and equipment	74,355	59,066	51,196	41,433	37,045
Right-of-use assets	N/A	N/A	25,824	58,818	52,183
Other assets	507,596	759,446	648,147	473,795	524,185
Total assets	**13,437,008**	**11,677,675**	**14,289,357**	**9,618,428**	**8,226,620**
Liabilities					
Borrowings	11,063,133	8,170,224	9,236,329	5,525,792	4,167,961
Senior notes	—	—	678,829	695,475	691,269
Lease liabilities	N/A	N/A	25,197	59,504	53,074
Guarantee liabilities	169,553	204,496	723,617	688,393	678,917
Tax payable	108,338	85,400	124,960	255,550	96,676
Deferred income tax liabilities	122,314	77,734	86,101	20,593	69,218
Preferred Shares	3,042,173	—	—	—	—
Other liabilities	440,107	355,094	314,046	313,185	320,220
Total liabilities	**14,945,618**	**8,892,948**	**11,189,079**	**7,558,492**	**6,077,335**
(Deficit)/Equity					
Share capital	394,462	40,938	40,913	40,857	40,594
Share premium	—	5,581,926	5,581,016	5,578,217	5,566,587
Treasury shares	—	—	(51,774)	(38,999)	(43,742)
Reserves	60,951	380,455	682,913	713,879	729,425
Accumulated deficits	(1,964,023)	(3,218,592)	(3,155,790)	(4,237,030)	(4,146,597)
Non-controlling interests	—	—	3,000	3,012	3,018
Total (deficit)/equity[1]	**(1,508,610)**	**2,784,727**	**3,100,278**	**2,059,936**	**2,149,285**
Total liabilities and equity	**13,437,008**	**11,677,675**	**14,289,357**	**9,618,428**	**8,226,620**
Non-IFRS Measure					
Adjusted total equity (unaudited)[1]	1,533,563	2,784,727	3,100,278	2,059,936	2,149,285

Notes:

(1) We define adjusted total equity by excluding 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."

(2) Certain figures in the consolidated statements of financial position as of December 31, 2018 have been reclassified, or restated, to conform to the presentation as of December 31, 2019. Please refer to the 2019 annual report for the figures as of December 31, 2018.

Operating Performance

The following table sets forth a breakdown of the number of our loan transactions and loan origination volume by product line for the periods indicated.

Number of transactions	For the Year Ended December 31, 2017		2018		2019		For the Six Months Ended June 30, 2019		2020		For the Three Months Ended September 30, 2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Credit card balance transfer products	1,398.5	41.6	992.7	44.5	1,028.8	26.8	592	32.1	162	13.6	267.9	23.4	107.5	16.0
Consumption credit products	1,930.4	57.3	1,217.5	54.5	2,804.4	73.2	1,255	67.9	1,027	86.4	878.5	76.6	564.4	84.0
Online-to-offline credit products	38.2	1.1	22.2	1.0	—	—	—	—	—	—	—	—	—	—
Total	**3,367.1**	**100.0**	**2,232.4**	**100.0**	**3,833.2**	**100.0**	**1,847**	**100.0**	**1,189**	**100.0**	**1,146.4**	**100.0**	**671.9**	**100.0**

Loan origination volume	For the Year Ended December 31, 2017		2018		2019		For the Six Months Ended June 30, 2019		2020		For the Three Months Ended September 30, 2019		2020	
	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	%
Credit card balance transfer products	14,168.7	57.7	13,497.9	65.0	13,068.3	38.7	6,663.7	46.3	2,770.2	20.8	3,596.7	35.2	1,625.0	18.7
Consumption credit products	7,859.7	32.0	4,652.0	22.4	20,678.1	61.3	7,739.2	53.7	10,543.2	79.2	6,618.4	64.8	7,051.6	81.3
Online-to-offline credit products	2,515.8	10.3	2,606.3	12.6	—	—	—	—	—	—	—	—	—	—
Total	**24,544.2**	**100.0**	**20,756.2**	**100.0**	**33,746.4**	**100.0**	**14,402.9**	**100.0**	**13,313.4**	**100.0**	**10,215.1**	**100.0**	**8,676.6**	**100.0**

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

Loan origination volume	For the Year Ended December 31, 2017		2018		2019		For the Six Months Ended June 30, 2019		2020		For the Three Months Ended September 30, 2019		2020	
	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	%	RMB (in millions)	%
Direct lending	1,258.2	5.1	1,279.3	6.2	295.1	0.9	215.4	1.5	69.7	0.5	31.4	0.3	36.0	0.4
Trust lending	19,474.6	79.4	12,446.9	60.0	15,333.3	45.4	5,056.9	35.1	5,049.4	37.9	4,615.9	45.2	2,637.8	30.4
Credit-enhanced loan facilitation	2,920.1	11.9	5,054.6	24.3	16,254.5	48.2	7,757.5	53.9	8,055.1	60.5	5,255.6	51.4	6,002.8	69.2
Pure loan facilitation	891.3	3.6	1,975.4	9.5	1,863.5	5.5	1,373.1	9.5	139.2	1.1	312.2	3.1	—	—
Total	**24,544.2**	**100.0**	**20,756.2**	**100.0**	**33,746.4**	**100.0**	**14,402.9**	**100.0**	**13,313.4**	**100.0**	**10,215.1**	**100.0**	**8,676.6**	**100.0**

An investment in the Notes involves significant risks. You should carefully consider the risks described below and the other information in this offering memorandum before you decide to invest in the Notes. If any of the possible events described below actually occurs, our business, prospects, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, the trading price of the Notes could decline and you may lose all or part of your investment.

We believe that there are certain risks and uncertainties involved in our operations, many of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to business operations in the PRC; (iii) risks relating to the Notes; and (iv) risks relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees.

Risks Relating to Our Business and Industry

We primarily operate in China's emerging online consumer finance market, which has been evolving rapidly and, as a result, it is difficult to evaluate our future prospects.

We primarily operate in China's online consumer finance market, which is new and highly dynamic. The growth prospects of this industry are subject to uncertainties and it may not grow as quickly as we anticipate, or at all. There are few established participants in this industry, and the business models of the market players continue evolving. Prospective borrowers and funding partners may have difficulty in distinguishing our products and services from those of our competitors. As the market, the regulatory environment and our business develop, we may continue to adjust our business model or change our product and service offerings. If we fail to keep up with the evolution of China's online consumer finance market, our results of operations and prospects may be adversely affected.

In addition, adjustments to our business that we may be required to make in response to the market or regulatory changes may adversely affect our prospects and results of operations. Recently, China has tightened its regulation of the consumer finance market. For a discussion of the risks relating to China's tightened regulation, see "— China's consumer finance market has recently experienced tighter regulation and may continue to be subject to heightened regulatory scrutiny. We may be required to make significant changes to our operations from time to time in order to comply with the changes in laws, regulations and policies." We have worked through such regulatory changes and regained business and asset quality stability. You should consider our business and prospects in light of the risks and challenges we encounter or may encounter in this new and rapidly evolving industry. These risks and challenges include our ability to, among other things:

- respond to changes in the regulatory environment in China;
- maintain or enhance the competitive edge of our "credit-plus-alternative" data approach;
- expand our borrower base, expand and diversify our funding sources, or increase our loan origination volume;
- offer attractively priced credit products to our borrowers while ensuring growth and profitability of our business;

- innovate and broaden our product and service offerings;
- maintain and enhance our mutually beneficial collaboration with our business partners;
- improve operational efficiency;
- successfully compete with other companies, some of which have substantially greater resources, market power and presence than us;
- maintain the security of our system and the confidentiality of the information received by, and utilized across, our system;
- attract, retain and motivate talented employees;
- defend ourselves in litigation, such as regulatory, intellectual property rights infringement, privacy or other claims; and
- navigate economic condition and fluctuation.

China's consumer finance market has recently experienced tightened regulation and may continue to be subject to heightened regulatory scrutiny. We may be required to make significant changes to our operations from time to time in order to comply with the changes in laws, regulations and policies.

Due to the rapid rise of China's consumer finance market, the PRC government continues to promulgate new rules and regulations for this market and the regulatory framework relating to the provision of consumer finance services is also evolving and uncertain. We primarily operate in the online consumer finance market and our business may be subject to a variety of laws and regulations in China that affect financial services, including consumer finance, small loan lending, online lending, financing guarantee and loan facilitation, and the application and interpretation of these laws and regulations are uncertain and vary between different local government authorities.

The PRC government did not introduce specific regulations for the online consumer finance market until 2015. In July 2015, China's central bank, the PBOC, and nine other PRC regulatory authorities jointly issued the Guidelines on Promoting the Healthy Development of Internet Finance (《關於促進互聯網金融健康發展的指導意見》), or the Internet Finance Guidelines. The Internet Finance Guidelines formally introduced the regulatory framework and core principles for administering online lending services in China. Based on the core principles of the Internet Finance Guidelines, in August 2016, the CBRC, and three other PRC regulatory authorities jointly issued the Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries (《網絡借貸信息中介機構業務活動管理暫行辦法》), or the P2P Interim Measures, for regulating the business activities carried out by peer-to-peer online lending service platforms, or P2P platforms. According to the P2P Interim Measures and relevant interpretations by the CBRC, "online lending" as specified in the P2P Interim Measures refers to direct lending between peers, which is widely known as P2P online lending, and is a form of private lending transaction. Loans funded by financial institutions that are licensed by financial regulatory authorities are not private lending transactions, according to the Private Lending Judicial Interpretation issued by the PRC Supreme People's Court in August 2015 and amended in August 2020. As advised by our PRC Legal Advisor, since we facilitate transactions that are directly funded by us or through our licensed funding partners acting as lenders, our business should fall into the category of "banking financial institutions conducting the lending business in cooperation with a third party," where we are the "third party," instead of a P2P platform, as defined under Circular 141. Therefore, we do not consider ourselves a P2P platform. However, we cannot assure you that the CBIRC or other PRC governmental authorities would not apply the P2P Interim Measures to us or consider us a P2P platform in enforcement actions.

According to two circulars promulgated in April 2016, namely the Circular of the General Office of the PRC State Council on Issuing the Implementing Proposals for the Special Rectification of Internet Financial Risks (《國務院辦公廳關於印發互聯網金融風險專項整治工作實施方案的通知》) and Circular on Issuing the Implementing Proposals for the Special Rectification of P2P Online Financial Risks (《關於印發〈P2P網絡借貸風險專項整治工作實施方案〉的通知》), two special task forces at the central-government level, namely the Office of Online Finance Risk Special Rectification Leading Working Group, or the Online Finance Working Group, and the Office of P2P Online Lending Risk Special Rectification Leading Working Group, or the P2P Online Lending Working Group, were established to align the PBOC, the CBRC, and other relevant PRC government authorities regulating the business operations of online finance companies and P2P platforms. On December 1, 2017, the Online Finance Working Group and the P2P Online Lending Working Group jointly issued Circular 141. Circular 141 sets out the principles and new requirements for the conduct of "cash loan" businesses by small loan companies, P2P platforms and banking financial institutions. Circular 141 does not clearly define "cash loans," but it indicates that cash loans that are subject to regulation and rectification have certain features, such as lack of (i) specific user cases (which, as we understand the term, refers to scenarios in which a user interacts with a product or service for a specific motivation), (ii) specified uses of loan proceeds, (iii) selected customer base, or (iv) collateral. Circular 141 requires that, among other things, each funding provider of cash loans must have an appropriate license to conduct lending business. In addition, all participants in the cash loan business must fairly price the loans and ensure that the total borrowing costs does not exceed the upper limit of the private lending interest rate provided by the PRC Supreme People's Court. In addition, Circular 141 further stipulates that a financial institution that offers cash loans through loan facilitation is prohibited from (i) accepting credit enhancement or other similar services from third parties that lack requisite licenses to provide guarantees; (ii) outsourcing credit assessment, risk control and other key functions to a loan facilitation operator; or (iii) allowing the loan facilitation operator to charge any fees from the borrower.

For a summary of our compliance status with respect to Circular 141, see "Business — Legal Proceedings and Compliance — Compliance with Circular 141." While we believe we currently are in compliance with existing PRC regulations, including Circular 141, in all material aspects, we cannot assure you that the PRC government authorities would agree with our interpretation of the relevant regulations or that they will not promulgate new rules that would require further adjustments to our business. For instance, Circular 141 does not specifically set out the calculation method of the "total borrowing costs," which must not exceed the upper limit of the private lending interest rate provided by the PRC Supreme People's Court. We calculate APR using our own method, which is based on the aggregate of interest and other related borrowing charges on a loan borne by a borrower, on a cash flow basis using adjustments to annualize amounts. We cannot assure you that PRC government authorities, including the judicial department, will agree with our interpretation and calculate the total borrowing cost according to the method we use.

On October 9, 2019, the CBIRC, the NDRC, the MIIT, the Ministry of Commerce, the State Administration for Market Regulation and other relevant authorities jointly promulgated the Notice on the Promulgation of Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies (《關於印發融資擔保公司監督管理補充規定的通知》), or the Supplementary Provisions on Financing Guarantee Companies, which stipulate that institutions that provide customer referrals, credit assessment and other services to various lending institutions shall not provide or provide financing guarantee services in disguise without approval.

Our small loan companies are also subject to the various laws, regulations, policies, announcements, notices and rules. On September 16, 2020, the CBIRC issued the Notice on Strengthening the Supervision and Management of Microloan Companies (《關於加強小額貸款公司監督管理的通知》), or Circular 86, to regulate the operations of small loan companies. Circular 86 stipulates that the financing balance of a microloan company's funding by bank loans, shareholder loans and other non-standard financing instruments shall not exceed such company's net assets, and the financing balance of the small loan company funding by issuance of bonds, asset securitization products and other instruments of standardized debt assets shall not exceed four times of its net assets. On November 2, 2020, the CBIRC and PBOC published the draft Interim Administrative Measures for Online Small Loan Business (Draft for Comment) for public comment (《網絡小額貸款業務管理暫行辦法(徵求意見稿)》), or Draft Interim Administrative Measures, which sets forth certain requirements for conducting online small loan business, including without limitation, (i) the registered capital of a small loan company operating online small loan business shall be not less than RMB1 billion, and shall be one-time paid-up registered capital; the registered capital of a small loan company operating online small loan business cross provincial regions shall be not less than RMB5 billion, and shall be one-time paid-up registered capital, and (ii) a small loan company operating online small loan business across provincial regions shall obtain the approval from the relevant banking regulatory agency of the State Council. Since the Draft Interim Administrative Measures was newly publicized and is still soliciting public comments, it is not certain whether and when the Draft Interim Administrative Measures will be officially promulgated, and when promulgated, whether it will be in the same form and content as the Draft Interim Administrative Measures. Any failure to comply with these Measures, if and when effective, may subject us to penalties or other administrative actions by regulatory authorities. Furthermore, our small loan companies have from time to time been subject, and will again in the future be subject, to inspection, inquiries and supervisions from relevant governmental authorities, and are or may be required to take compliance measures to rectify certain aspects of our small loan business operations. We cannot assure you that our compliance measures in response to the inquiries or notices from relevant governmental authorities will fully meet the requirements of such governmental authorities, and any non-compliance may subject us to liabilities or administrative penalties.

It is uncertain how the above laws, regulations, measures, policies and notices will be interpreted and implemented, and Circular 63. has not yet set out a clear schedule of when the P2P filing will be available. These regulations may be interpreted or enforced in ways that are different from our understanding and expectations. Any non-compliance with the applicable laws, rules, regulations, policies announcements, notices and rules, including as a result of ambiguities in their interpretation and application, may subject us to sanctions by regulatory authorities, penalties, or restrictions on our business activities or even revocation of our licenses. Moreover, the PRC government may seek to enhance the regulatory scrutiny of our industry and promulgate new laws and regulations along with the growing popularity of consumer finance. To the extent that any new laws and regulations or any interpretations of existing laws and regulations restrict our ability to continue and expand our current operations, cause any aspects of our current operations to become non-compliant, or impose material compliance costs on us, our business and results of operations may be materially and adversely affected.

If our credit risk management system becomes ineffective in controlling our credit risk exposure, or if we fail to continuously enhance our credit risk management system or its underlying technology at a competitive pace, the level of our delinquency ratios may deteriorate and our market position, reputation, and results of operations may be materially and adversely affected.

Our business operations depend on our comprehensive credit risk management system, which in turn relies on our credit assessment and approval procedures, which largely consists of four steps: (i) preliminary screening of loan applicants to verify their identities, (ii) due diligence of loan applicants for fraud detection and prevention, (iii) review of due diligence findings and other information about the borrowers and quantification of credit risk exposure through the applicable scorecards, and (iv) reaching credit decisions primarily based on the scorecard output. These and other risk management procedures are executed primarily by our proprietary core risk management system, *Hummingbird*. For example, *Hummingbird* conducts credit risk assessment by aggregating and processing credit data and alternative data, deducing effective variables for modeling, performing feature engineering, and rendering credit decisions based on multi-dimensional scorecards. The credit risk management system and its underlying technology are developed through joint efforts of our experienced credit risk management team and our data analytics specialists. For a discussion of our credit risk management system, see "Risk Management — Credit Risk Management." For a discussion of our *Hummingbird* system, see "Business — Proprietary Technology — Hummingbird." We cannot assure you that our credit risk management system will continue to be effective without interruption. If our credit risk management system becomes ineffective in controlling our credit risk exposure, or if we fail to continuously enhance our credit risk management system or its underlying technology at a competitive pace, our risk-based pricing capabilities could be negatively affected, which may result in incorrect approvals or denials of loans or mis-pricing of our credit products. If we are unable to assess the credit profile of a borrower or price credit products appropriately, we may fail to maintain satisfactory delinquency ratios. If we are unable to maintain low delinquency ratios for loans originated by us, our business and results of operation may be materially and adversely affected. Moreover, if our risk-based pricing capabilities are impaired, we may not be able to offer attractively priced credit products to our borrowers. As a result, our loan origination volume may be reduced and our business and operating results may be materially and adversely affected.

In addition, to maintain our competitiveness in the market, we devote significant resources to improving our credit risk management system in response to the expanding user data, changing user demands and evolving market. If we fail to continuously improve the effectiveness of our credit risk management system at a competitive pace, or if we fail to keep up with the rapid development of technology and its application in the online consumer finance market, we may lose our competitive advantage and market share, and our reputation, results of operations and financial condition may be materially and adversely affected.

Our risk management and internal control systems may not fully and effectively protect us against various risks inherent in our business.

We have established risk management and internal control systems consisting of organizational framework, policies, procedures and risk management methods that we consider appropriate for our business operations. For a discussion of our risk management and internal control systems, see "Risk Management." While we continue to improve and reinforce our risk management and internal control systems over time, we cannot assure you that such systems will be able to identify, manage or protect us against all risks. Our risk management and internal control methods are generally based on analysis of historical situations and the assumption that risks in the future will share similar characteristics with those in the past. This assumption may not always be valid given the rapid development of China's online consumer finance market and the change of borrowers' demand. The risks could be greater than what our empirical information suggests or may not be reflected in such information at all.

Our operations and our industry requires interactions with government officials in our ordinary course of business. We have recently established policies and procedures in respect of our relations with government officials, employees of financial institutions and other business partners, policies and procedures on gifts and cash payments, our insistence on our employees adhering to relevant laws, regulations and our own code of conduct, and our maintenance of a corporate culture focused on ethical behavior. We also maintain "whistle-blower" procedures so that employees can anonymously report any concerns about improper payments. However, these policies and procedures were recently implemented, and we have only limited experience operating under them. Any claims, proceedings or other actions involving or implicating any violation of anti-bribery laws and anti-competition in China and elsewhere and any other applicable laws and regulations, by us, our employees, our business partners or our related parties may harm our reputation and divert our management's attention. If any such allegations are proven against us or our employees, we could be subjected to severe penalties, including fines, criminal sanctions, loss of licenses or other restrictions on our operations, any of which could have a material adverse effect on our reputation, financial results, and prospects.

Our risk management and internal controls significantly rely on our information technology system in the collection, analysis and processing of information and our implementation of various policies and procedures. While we seek to continuously upgrade our information technology system, there may be uncertainties, limitations or technical defects in connection with the infrastructure, software and models. In addition, we cannot assure you that all of our employees will adhere to the policies and procedures, or that human errors or mistakes will not occur. Moreover, our growth and expansion as well as the evolvement of the regulatory environment of China's consumer finance market may affect our ability to implement stringent risk management and internal control systems. If we fail to adapt our risk management policies and procedures in a timely manner or our policies and procedures fail to prevent and detect any such activities or our employees otherwise become involved in allegations of improper actions, our business, results of operations, financial conditions, and reputation may be materially and adversely affected.

Our direct, real-time, and officially authorized read-and-write access to the CCRC consumer credit database is one of our competitive strengths. If our access to this system is hindered, suspended or terminated, even briefly or to a limited extent, our business and results of operations may be materially and adversely affected.

We have direct, real-time, and officially authorized read-and-write access to the consumer credit database of the CCRC, which maintains China's national commercial and consumer credit reporting system. Such full access allows us to read the CCRC credit data and to report the relevant credit data to the CCRC. We believe that credit data is the foundation of borrower credit assessment and that the official credit records maintained by the CCRC has been and will continue to be the consumer credit market infrastructure. The CCRC is responsible for maintaining China's national consumer credit database, and access to its database may be interrupted due to their operation requirements, such as shutdowns during national holidays. If our access to the CCRC consumer credit database is hindered, suspended or terminated, even to a limited extent or for a short period, the data analytics for our credit risk quantification may be impaired, causing our risk-based pricing and credit decisioning to become inaccurate and the delinquency ratios of our credit products to increase, and therefore our reputation, business and results of operation will suffer. Moreover, data integrity is critical to the effectiveness of our credit risk management system. If our access to the CCRC consumer credit database discontinues or is restricted or hindered in any way, we may not be able to find other credit data sources with equivalent comprehensiveness, accuracy or integrity on commercially reasonable terms, or at all, and we may not be able to continuously optimize our credit assessment and enhance our risk-based pricing capabilities. Accordingly, our market position, business and results of operation may be materially and adversely affected.

We face intense competition, and, if we do not compete effectively, our results of operations could be harmed.

China's online consumer finance market is highly competitive and rapidly evolving. We compete with these market players for borrowers, funds or both. Our competitors may operate with more efficient business models and cost structures. They may ultimately prove to be more successful or more adaptable to new regulatory, technological and other developments than us. Some of our current and potential competitors have significantly more financial, technological, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sales and support of their platforms, products and services. Our competitors may also have longer operating histories, more extensive and stable borrower base or funding sources, greater brand recognition and brand loyalty and broader partner relationships than us. Additionally, a current or potential competitor may acquire, or form strategic alliances with, one or more of our competitors. Our competitors may be better at developing new products and services, offering more attractive investment returns or lower fees, responding faster to new technologies and undertaking more extensive and effective marketing campaigns. In response to competition and in order to grow or maintain our loan origination volume, we may have to offer lower interest rates and service fees to attract borrowers and institutional funding providers, respectively. We currently derive a substantial majority of our total income from interest income and loan facilitation service fees. Any material decrease in our interest income or loan facilitation service fees would have a material adverse effect on our business, results of operations and financial condition. If we fail to compete effectively in the industry, the demand for our credit products could substantially decline and our business and results of operations could be harmed.

We may not always be able to anticipate and satisfy the changing needs of our target borrowers. If we fail to retain existing borrowers or attract new borrowers, our loan origination volume may decrease.

Since the launch of our major mobile applications in 2015, the number of our registered users and the loan origination volume have grown rapidly. The number of our registered users increased significantly from 48.4 million as of December 31, 2017 to 59.7 million as of December 31, 2018 and further to 83.8 million and 93.1 million as of December 31, 2019 and September 30, 2020, respectively, and the total loan origination volume recorded RMB24.5 billion in 2017, RMB20.8 billion in 2018, 33.7 billion and 22.0 billion as of December 31, 2019 and September 30, 2020, respectively. In order to further grow our business, we must continue to retain existing borrowers and attract new borrowers. Our core growth strategies include providing fairly priced credit products tailored to attract new borrowers and increase the life-value of our existing borrowers. As the credit needs of our target borrowers and the market conditions keep changing, we cannot assure you that we will be able to continue to successfully implement these strategies. If we fail to offer attractively priced credit products to the borrowers, or launch or adapt the products that cater to their evolving credit needs, we may not be able to maintain or increase the growth rate of our borrower base as well as the repeat borrowing rate of our products, which will materially and adversely affect our business and results of operations. In addition, we have dedicated and expect to continue to dedicate significant resources to acquire users, including improving our brand recognition and introducing new credit products. However, we cannot assure you that we will be able to acquire users in a cost-effective manner, or at all.

If there are insufficient qualified loan requests, we may not be able to meet the continuous investment demands of our funding partners, who may then turn to our competitors or seek other forms of investments. If there are insufficient funding sources, borrowers may be unable to obtain capital through loans originated by us on a timely basis, or at all, and may turn to other sources for their borrowing needs, including our competitors. If we are unable to attract qualified borrowers and sufficient funding sources or if borrowers do not continue to use our products at the current rates, we may not be able to increase our loan origination volume, which would adversely affect our business and results of operations.

We incurred net losses in the past and may continue to experience losses in the future.

We had a net loss of RMB1.0 billion, RMB1.0 billion, RMB1.1 billion and net profit of RMB90.4 million for the years ended 2017, 2018, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively. We cannot assure you that we will be able to generate net profits in the future. For example, we recognized RMB1.1 billion of fair value loss of Preferred Shares due to the automatic conversion of our Preferred Shares upon the listing of our ordinary shares on the SEHK in 2018. We also recognized significant share-based compensation expenses for 2019. We believe that our future total income growth will depend on, among other factors, market acceptance of our credit products, the effectiveness of our risk-based pricing capabilities and risk management system, as well as our ability to attract and retain borrowers and institutional funding providers and innovate and improve our products, services and solutions. In addition, our ability to sustain profitability is affected by various factors, many of which are beyond our control, such as the macroeconomic and regulatory environment and competition of the consumer finance market.

We may continue to incur losses in the future due to our continued investments in services, technologies, research and development and our continued sales and marketing initiatives. Accordingly, we may experience losses in the future.

The disposal of the online-to-offline business may affect our operating results.

On October 10, 2018, VC Financial Technology and certain members of the Group's management who have been responsible for the operations of the online-to-offline business segment entered into the Sale and Purchase Agreement, pursuant to which, VC Financial Technology agreed to sell, and the Purchasers agreed to purchase, the entire issued share capital of Vision Financial Servicing and the online-to-offline business platform of the Group. The disposal was completed on December 31, 2018. As a result of the disposal, we no longer operate the online-to-offline business platform, and since October 10, 2018, we no longer derive any income from the provision of online-to-offline credit products. If our other business segments fail to generate growth in income, our results of operations and prospects could be adversely affected on an ongoing basis.

In addition to the Sale and Purchase Agreement, we have also entered into non-compete agreements with the Purchasers to minimize the risk of cannibalization effects between us and the Purchasers. If these non-compete agreements are ineffective, cannibalization among us and the Purchasers may result in a loss of income for our credit card balance transfer business or other online credit businesses that we operate, which in turn could adversely affect our results of operations and prospects.

Our expected credit losses ("ECL") allowance/impairment allowance and guarantee liabilities may not be adequate to cover actual credit losses.

We face the risk that borrowers under the loans originated by us fail to repay their principals, interest and applicable fees in full. We have four funding structures for the loans originated by us, among which three funding structures are: (i) direct lending, where we directly lend to the borrowers; (ii) trust lending, where trust plans and asset management plans lend the money and we subscribe to subordinated tranches of the trust plans and the asset management plans and guarantee the loans lent by the trust plans and asset management plans; and (iii) credit-enhanced loan facilitation, where we guarantee the loans that we facilitate. Under our credit-enhanced loan facilitation structures we record guarantee liabilities in relation to the loans guaranteed by us.

As a result of the adoption of IFRS 9, impairment allowances are required to be measured using the ECL model. With respect to the loans funded through the credit-enhanced loan facilitation structure, we recorded the estimated net future payments due to the default of loans guaranteed by us as guarantee liabilities on our consolidated statements of financial position. As of December 31, 2017, 2018, 2019, June 30, 2020 and September 30, 2020, our guarantee liabilities were RMB169.6 million, RMB204.5 million, RMB723.6 million, RMB688.4 million and RMB678.9 million, respectively. As of September 30, 2020, the outstanding balance of loans originated under our credit-enhanced loan facilitation structure was RMB9,200.0 million.

We have established an evaluation process designed to determine the adequacy of our ECL allowances/impairment allowances and guarantee liabilities. While this evaluation process uses historical and other objective information, it is also dependent on our subjective assessment based upon our estimates and judgment. For a discussion of our provisioning policy, see "Business — Asset Quality and Provisioning Policy." Actual losses are difficult to forecast, especially if such losses stem from factors beyond our historical experience. Given that the online consumer finance market is rapidly evolving, and is subject to various factors beyond our control, such as shifting trends in the market, regulatory framework, and overall economic conditions, we may not be able to accurately forecast the delinquency ratios of our current target borrower base due to the lack of sufficient data. Therefore, our actual delinquency ratios may be higher than we expect. If our credit risk assessment and expectations differ from actual circumstances or if the quality of the loans originated by us deteriorates, our impairment allowance and guarantee liabilities may be insufficient to absorb actual credit losses and we may need to set aside additional provisions, which could have a material adverse effect on our business, financial condition and results of operations.

We measure loans to customers as fair value and may have uncertainty.

Under our direct lending and trust lending structures, we incur impairment losses in relation to loans to customers and receivables. Loans funded through the direct lending and trust lending structures could subject us to significant credit risk. For a discussion of our credit risk exposure, see "Financial Information — Financial Risk Disclosure — Credit Risk." With respect to loans to customers, the estimated losses of loan principal and interest income due to borrowers' defaults are recorded as impairment allowance as a net-off item of loans to customers on our consolidated statements of financial position. As of December 31, 2017, our impairment allowances in relation to loans to customers were RMB1.8 billion. These loans were classified as fair value through profit or loss from the date of initial application of IFRS 9. As of December 31, 2018 and 2019, June 30, 2020 and September 30, 2020, loans to customers as fair value were RMB8.9 billion, RMB9.5 billion, RMB5.3 billion and RMB4.2 billion, respectively.

The credit profiles of our borrowers may deteriorate over time, as the credit cycle progresses.

Our business is subject to the credit cycle associated with the volatility of the general economy. Any actual or perceived threat of economic crisis or prolonged downturn in the credit markets may cause tightening credit guidelines, limited liquidity, deterioration in credit performance and increased foreclosure activities. As a result, the number of quality borrowers seeking credit from us and the funding partners seeking investment opportunities will decrease, and the delinquency ratios of the loans originated by us may increase. In the event that the creditworthiness of our borrowers deteriorates or we cannot track the deterioration of their creditworthiness, the criteria we use for the analysis of borrower credit profiles may be rendered inaccurate, and our risk management system may be subsequently rendered ineffective. This in turn may lead to higher delinquency ratios and adverse impacts on our reputation, business, results of operations and financial position.

If we are unable to enhance or maintain our existing collaboration relationships with our funding partners to meet the demands of our borrowers, our market position and results of operations may be materially and adversely affected.

We continuously endeavor to establish and maintain long-term relationships with diversified funding partners in order to secure scalable, stable and reliable funding for our credit products. Historically, a majority of our loan origination volume has been funded through our trust lending structure. Our funding partners could decide not to continue their collaboration with us due to changes in economic conditions, regulatory regime or any unexpected shortage of funds. For instance, if the cooperation arrangements between our funding partners and us are found to be non-compliant with the relevant laws and regulations, including Circular 141, they may be prevented from funding the loans facilitated by us. In addition, on April 27, 2018, the PBOC and certain other financial regulators jointly issued the Guidance on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》), or the Asset Management Rules, which stipulated, among other things, detailed requirements for fixed-return asset management products, including trust plans established and managed by trust companies. The Asset Management Rules require that the ratio of senior tranche units to subordinated tranche units under fixed-return products cannot exceed 3:1, and allow a transitional period until the end of 2020 which was recently extended to the end of 2021. We may be required by certain trust companies to inject additional capital to subscribe to a higher percentage of subordinated tranches of the trust plans, possibly even before the end of the transitional period, or be required to resort to alternative trust plan structures, which could cause complications to our collaboration relationships with our funding partners. In addition, to cope with the evolving regulatory regime, our funding partners may need to adopt changes to the cooperation model with their business partners, including us, which may adversely affect our business. We cannot assure you that the business operations of our funding partners currently are or will be in compliance with the relevant PRC laws and regulations, and in the event that our funding partners do not operate their businesses in accordance with the relevant PRC laws and regulations, they will be exposed to various regulatory risks, and as a result, our cooperation model with them would be impacted and our business, financial condition and prospects would be materially and adversely affected. For example, the CBIRC issued the Provisional Regulatory Measures for Commercial Banks' Online Lending Business (《商業銀行互聯網貸款管理暫行辦法》) on July 12, 2020 to provide for the regulatory requirements on the extension of credit by commercial banks via online channels in various aspects. In addition, our partner banks are also subject to changes to capital adequacy and other regulatory requirements that may affect the risk weightings for various credit assets. Any increase in risk weightings for loans enabled through our platform will increase our partner banks' capital requirements, which may reduce the attractiveness of these loans or reduce or eliminate their interests in cooperating with us. If our funding partners are required to adopt changes to their cooperation models with us as a result of new laws and regulations, our business, financial condition, results of operation and prospects could be materially and adversely affected. Although we believe we maintain good relationships with our funding partners, we cannot assure you that our funding partners will not cease to fund the loans or significantly reduce their funding amounts or increase the funding costs to the loans originated by us, or we will be able to find a replacement timely and at commercially acceptable terms, or at all. In addition, we began offering credit assessment services based on our *Hummingbird* system to our funding partners as an integrated part of the pure loan facilitation structure in August 2017. Under this structure, we do not use our own capital or provide loan guarantees with respect to the loans funded by the financial institutions. However, we cannot assure you that our pure loan facilitation structure will be generally accepted by our funding partners or otherwise meet our expectation. If we are unable to further expand our funding sources to meet the increasing demands of borrowers, we may lose our market share and be unable to grow our total income at a desirable rate.

Changes in accounting standards may make it difficult to compare our results of operations.

We are required to adopt new accounting standards under IFRS from time to time. Certain new accounting standards may impose significantly different accounting treatments on certain line items on our consolidated financial statements, which could make it difficult to compare our results of operations from period to period.

For the year ended 2017, we assessed the impairment of our loans and other financial assets not designated at fair value through profit or loss under the guidance of IAS 39. For the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we adopted IFRS 9 and assessed the fair value of our loans and impairment of other financial assets not designated at fair value through profit or loss under the guidance of IFRS 9.

The complete version of IFRS 9 — Financial Instruments was issued by the International Accounting Standards Board in July 2014, and has been effective since January 1, 2018. IFRS 9 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. As a result of the application of the classification and measurement requirements of IFRS 9, loans to customers were reclassified from loans and receivables under IAS 39 to financial assets measured at fair value through profit or loss under IFRS 9, because the amount paid upon prepayment does not substantially represent unpaid amounts of principal and interests on the principal amount outstandingly, according to the early repayment clause in the loan contracts. 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. Since January 1, 2018, the classification and measurement of new loan contracts depend on whether their terms can pass the “solely payment of principal and interest” test. Therefore, the accounting treatment of such new loan contracts is subject to ongoing uncertainty, which in turn could affect our results of operations on an ongoing basis. Our results of operations during the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020 may not be indicative of our results of operations for the reporting periods beginning on or after October 1, 2020. For a detailed discussion of differences between IAS 39 and IFRS 9 and the quantitative impact of the classification and measurement requirements arising from the adoption of IFRS 9 on our results of operations, see Note 2.2 to the consolidated financial statements for the year ended December 31, 2018 included elsewhere in this offering memorandum.

We require substantial capital to operate our business and to sustain our growth, and we cannot assure you that we will be able to obtain adequate capital on acceptable terms, or at all.

The operations and expansion of our business require substantial capital due to the nature of our business and regulatory requirements. With respect to loans funded through the credit-enhanced loan facilitation structure, the funding partners typically would require us to maintain certain amount of cash deposit with them to ensure we will fulfill our financing guarantee obligations when the loan payment is delinquent. Our ability to provide such deposits depends on the availability of sufficient cash positions. As of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, our cash and cash equivalents amounted to approximately RMB568.2 million, RMB1,050.1 million, RMB2,169.5

million, RMB1,814.0 million and RMB1,352.6 million, respectively. As of the same dates, we provided approximately RMB145.5 million, RMB280.9 million, RMB333.5 million, RMB289.1 million and RMB400.6 million, respectively, as security deposits with our funding partners pursuant to our cooperation agreements. If we are unable to maintain adequate liquidity to provide security deposits, our cooperation with our funding partners may be materially and adversely affected and our business operations may be affected.

Furthermore, our financing guarantee company provides loan guarantees for the loans under the credit-enhanced loan facilitation structure. The size of loan guarantees that our financing guarantee company may provide is limited by the amount of its net assets. According to the relevant PRC laws and regulations, the total net balance of the outstanding financing guarantees provided by a financing guarantee company must not exceed ten times of its net assets. If we are unable to obtain additional capital and replenish the net assets of our financing guarantee company, the size of the loan guarantees we may provide will be limited and the scale of our credit-enhanced loan facilitation structure may not grow as we expect.

We conduct direct lending primarily through our online small loan companies. These companies are only permitted to extend loans using their own capital or bank loans up to the aggregate outstanding principal amount of 50% of their respective net capital pursuant to the applicable PRC laws and regulations. We also subscribe to subordinated tranches of the trust plans that fund the loans originated by us under the trust lending structure. We will need to inject additional capital into the online small loan companies and trust plans to meet the growing funding needs of our credit products if we are unable to obtain alternative external financing sources. Following the issuance of the Asset Management Rules, we may be required by trust companies to inject additional capital to subscribe to a higher percentage of subordinated tranches of the trust plans, possibly even before the end of the transitional period, to comply with the new regulatory requirements.

During the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our net cash inflow from operating activities fluctuated significantly. For the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, net cash inflow from operating activities was RMB3.1 billion, RMB367.6 million, RMB3.8 billion and RMB1.1 billion, respectively. If we are unable to obtain adequate financing on commercially acceptable terms, or at all, our ability to fund the operations and take advantage of new opportunities may be hindered, and our business, results of operations and financial condition may be materially and adversely affected.

The fair value measurement of certain of our assets and liabilities is subject to significant uncertainties and risks and the fair value changes of such assets and liabilities may materially and adversely affect our results of operations.

During the year ended 2017, we issued Preferred Shares, which are designated as financial liabilities at fair value through profit or loss. We also made investments in certain wealth management products, which are designated as financial assets at fair value through profit or loss. Following our adoption of IFRS 9 for the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we are required to measure our loans to customers, which we previously measured at amortized cost, at fair value through profit or loss beginning from January 1, 2018. The fair value measurement of these assets and liabilities is subject to significant uncertainties and risks.

In accordance with IFRS, gains or losses arising from changes in the fair value of our financial assets and liabilities should be accounted for in our consolidated income statement in the period in which they arise. The fair value of financial assets and liabilities that are not traded in an active market, such as our Preferred Shares and our loans to customers, is determined using valuation techniques. Based on such valuations, we recognized the aggregate fair value of our financial assets and liabilities on our consolidated statements of financial position, and recognized changes to fair value of our Preferred Shares on our consolidated statements of comprehensive income. During the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we recorded fair value losses of our Preferred Shares of RMB1.3 billion, RMB1.0 billion, nil, nil and nil, respectively. For the year ended 2018, being the first reporting period where we have adopted IFRS 9, we recorded fair value losses on loans to customers of RMB1.1 billion in our consolidated statements of comprehensive income. For the year ended 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we recorded fair value losses on loans to customers of RMB2.1 billion, RMB1.8 billion and RMB0.3 billion.

Fair value gains or losses do not, however, change our cash position as long as the relevant investment properties are held by us, and accordingly do not decrease our liquidity in spite of the decreased profit represented by any fair value losses. We use our judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The valuation methodologies that we use may involve a significant degree of management judgment and are inherently uncertain, and may result in material adjustment to the carrying amounts of certain assets and liabilities, which in turn may materially and adversely affect our results of operations. If the fair value of our financial assets and liabilities further declines, our profitability would be materially and adversely affected.

Failure to obtain, renew, or retain requisite licenses, permits, or approvals may adversely affect our ability to conduct or expand our business.

The PRC government extensively regulates the consumer finance market and the Internet industry, and we are therefore required to hold various licenses, permits, or approvals issued by relevant authorities for our business operations. Currently, we have two small loan companies permitted to operate nationwide online small loan lending businesses, one financing guarantee company licensed to provide guarantee services, subject to specific PRC laws and regulations relevant to their respective permitted businesses. The business operations of our permitted entities are subject to the inspections and examinations of relevant government authorities from time to time. For instance, pursuant to a notice issued by the P2P Online Lending Working Group in December 2017, local branches of the P2P Online Lending Working Group conducted examination and inspection of online small loan companies that concluded by the end of January 2018. Depending on the inspection results, these local regulatory authorities may require the online small loan companies they inspected to take rectification measures within specified periods, may revoke the operation approvals of non-compliant companies and may order non-compliant companies to cease business operations. Although the competent government authorities have conducted their inspections of our online small loan companies in accordance with such notice, we have not received the results of such inspection or other feedbacks as of September 30, 2020. However, we cannot assure you that we will not receive any inspection results that require us to adjust our business practices or otherwise adversely affect our business operations. Moreover, from time to time, we may wish to increase the registered capital of our licensed or permitted operating entities, including our financing guarantee company and online small loan companies, modify our existing products and services, offer new financial products or services, or engage in personal credit collecting and reporting business to keep up with changing consumer preferences. We may also establish new subsidiaries or branches to expand our business network. As a result, we may be required to obtain or maintain certain licenses, permits, or approvals, or may be required to submit certain reports to the competent authorities to expand our businesses, offer new products and services or enter into new geographical areas. For the capital enhancement of our financing guarantee company, we provided or may further provide offshore shareholder loans to our financing guarantee company. We cannot assure you that our financing guarantee can always obtain the foreign exchange registration for such shareholder loans in a timely manner in accordance with relevant PRC laws and regulations. Moreover, the ambiguous interpretations and application of existing PRC laws, regulations and policies and possible new laws, regulations and policies governing our industry have created substantial uncertainties regarding the licensing or approval requirements of our business and activities. We cannot assure you that we will be able to obtain all the licenses, permits, or approvals, or submit all reports required to conduct our business in China or maintain our existing licenses, permits, and approvals. Any failure or significant delay to obtain or renew, or any suspension or revocation, of these licenses, permits, filings, registrations and approvals, may have a material adverse impact on our business and results of operations.

We may be required to obtain value-added telecommunication business licenses, which may be time-consuming and costly and interrupt our business.

According to relevant PRC laws and regulations, any enterprise must obtain a value-added telecommunication business license to operate value-added telecommunication business. An ICP License is required for engaging in commercial Internet information services, and a value-added telecommunication business license for online data processing and transaction processing, or ODPTP license, is required for engaging in the operation of online data processing and transaction processing.

Based on the confirmation from the competent PRC government authorities (Shanghai Communications Administration Bureau and Shanghai Finance Service Office), we are not required to obtain an ICP License or ODPTP license or other value-added telecommunication business licenses (collectively, the "**VATS Licenses**") as an online consumer finance service provider operating a loan facilitation or direct lending business. For a discussion of our funding structures of loans, see "Business — Funding of Loans — Funding Structures." Nevertheless, given the evolving regulatory environment of China's online consumer finance market and value-added telecommunication business, we cannot rule out the possibility that the PRC communication administration authority or other government authorities will require online consumer finance service providers like us to obtain an ICP License, ODPTP license or other value-added telecommunication business licenses, or issue new regulatory requirements to institute a new licensing regime for our industry. If such value-added telecommunication business licenses are clearly required in the future, or a new license regime is introduced or new regulatory rules are promulgated, we cannot assure you that we would be able to obtain any required license or other regulatory approvals in a timely manner, or at all, which would subject us to the corrective orders and warnings from the PRC communication administration authority, fines and confiscation of illegal gains and, in the case of significant infringements, the mobile applications may be ordered to cease operation, or other sanctions as stipulated in the new regulatory rules, which would materially and adversely affect our business and impede our ability to continue our operations.

If we are required to obtain an ICP License or other value-added telecommunication business licenses pursuant to new PRC laws and regulations and interpretations, we may need to restructure our current business practice or make further adjustment to our business for the compliance of such new laws and regulation and interpretations. Any such restructuring and adjustment may be time-consuming and costly and may result in interruptions to our business, and our business and operating results may be materially and adversely affected.

Our business has been and is likely to continue to be materially adversely affected by the outbreak and resurgence of COVID-19 in China.

Since the beginning of 2020, outbreaks of COVID-19 have resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across China. In early 2020, in response to intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included extending the Chinese New Year holiday, quarantining individuals infected with or suspected of having COVID-19, prohibiting certain travels, encouraging employees of enterprises to work remotely from home, and cancelling public activities, among others. We have taken a series of measures in response to the outbreak, including, among others, temporary remote working arrangements for nearly all of our employees, increased health monitoring (included daily temperature checks), additional disinfecting and cleaning of our offices, provisions of masks, and other sanitary measures. In addition, to facilitate remote working, we have adjusted our IT and technology systems. These steps taken have increased and may continue to increase our costs, lower our efficiency, reduce our ability to market our products, and disrupt our normal operations. Return to operations after the Chinese New Year holiday was significantly delayed and has impacted our results of operations, and our business operations continue to be impacted by the pandemic.

The outbreak has impeded our e-commerce operations. Normal e-commerce activities were delayed, which in turn adversely affected our revenue and financial condition as well as our customer experience. This outbreak has also caused restrictions on our employees' and other service providers' ability to travel, which in turn impaired our ability to conduct any business activities that required face-to-face meetings and signings, such as discussions with our business partners and our funding partners. This in turn impacted our access to and ability to obtain funding. It has also negatively impacted the effectiveness of our collection efforts, which may require us to increase the amount of allowance for credit losses. As a result of any of the above developments, our business, financial condition and results of operations could be materially and adversely affected.

The outbreak and resurgence of COVID-19 has caused, and may continue to cause, us and certain of our business partner, to implement temporary adjustment of work schemes allowing employees to work from home and adopt remote collaboration. We have taken measures to reduce the impact of this pandemic outbreak, including, upgrading our telecommuting system, monitoring our employees' health on a daily basis and optimizing our technology system to meet the ongoing requirements. However, we might still experience lower work efficiency and productivity, which may adversely affect our service quality and collection efforts.

As COVID-19 has negatively affected the broader Chinese economy and the global economy, China may experience lower domestic consumption, higher unemployment, severe disruptions to exporting of goods to other countries and greater economic uncertainty, which may also impact us in a materially negative way. As our customers experience greater economic uncertainty, potential unemployment or actual unemployment, they may become less confident in an economic recovery and less inclined to consume or borrow, which could then materially impact our business. Users may also have less propensity or ability to repay their loans as a result of the economic problems caused by COVID-19, which may then impact directly our delinquencies, bad debt, charge-offs, and other credit ratios and statistics. This may result in an upward adjustment in our provision of financial assets subject to fair value or credit losses and guarantee liabilities and adversely affect our financial condition and results of operations. In the negative economic environment caused by COVID-19, we have and may also continue to need to adjust our credit scoring model and lower our approval rates, in order to mitigate against any potential credit risks. This may in turn negatively impact our revenues and our growth.

In addition, our business partners, especially smaller or medium sized enterprises in China, may also experience economic hardship which may force them to reduce or go out of business, leaving us with fewer partners and reduced funding sources to meet the demands of our customers. Further, the operations of our business partners and service providers may also be constrained and impacted, due to limited freedom of movement and less efficient operations, which may have a negative impact on our business. As parts of our business are focused on facilitating online consumption, the inability of customers to move freely and consume in offline environments may also impact negatively on our growth and loan generation.

The extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the global impact of COVID-19 and the actions to contain the coronavirus or alleviate its impact, among others. Currently, there is no vaccine or specific anti-viral treatment for COVID-19. Relaxation of restrictions on economic and social life may lead to new cases which may lead to the reimposition of restrictions. Our business and financial performance have been adversely affected by the outbreak of COVID-19 in China since the beginning of 2020, and such adverse impact is likely to continue throughout the current year, if not longer.

Our current level of interest and fees rates may significantly decline due to changes in market or regulatory environment, which may reduce our profitability.

We generate a substantial majority of our total income from our interest income and loan facilitation service fees. Our interest income is primarily derived from loans originated by us through our trust lending and direct lending structures, and our loan facilitation service fees are primarily derived in connection with loans originated by us under the credit-enhanced loan facilitation and pure loan facilitation structures. For a discussion of our funding structures, see "Business — Funding of Loans — Funding Structures." The rates of interest and fees we receive may be affected by the development of changes in our product mix, general economic conditions, regulatory requirements and the competition in the consumer finance market. Any material reduction in our interest and fee rates could have a material adverse effect on our results of operations and financial condition.

In accordance with Circular 141, the total borrowing cost must comply with the legal requirements on private lending interest rates provided by the judicial department. According to the Provisions on Certain Issues of the Application of Laws in the Trial of Private Lending Cases (《關於審理民間借貸案件適用法律若干問題的規定》) issued by the PRC Supreme People's Court in August 2015, in respect of lending activities between individuals, entities or other organizations that are not licensed financial institutions, if the interest rate of a loan exceeds 36% per annum, the part in excess of 36% per annum is invalid and void; if the interest rate of a loan exceeds 24% per annum but is not more than 36% per annum, the interest rate in excess of 24% will be treated as a natural obligation — valid but not enforceable in the PRC judicial system; a voluntary payment at an interest rate in excess of 24% per annum and less than 36% per annum will likely not be challenged. In August 2017, the PRC Supreme People's Court promulgated the Circular of Several Suggestions on Further Strengthening the Judicial Practice Regarding Financial Cases (《關於進一步加強金融審判工作的若干意見》), which provides, among others, that (i) the claim of a borrower under a financial loan agreement to adjust or cut down the part of interest exceeding 24% per annum on the basis that the aggregate amount of interest, compound interest, default interest, and other fees collectively claimed by the lender is much higher than the actual losses must be supported by the PRC courts; and (ii) in the context of online finance disputes, if an online lending information intermediary and lender circumvent the upper limit of the judicially protected interest rates by charging intermediary fees, such fees must be ruled as invalid. On July 22, 2020, the Supreme People's Court and the National Development and Reform Commission, or the NDRC, jointly released the Opinions on Providing Judicial Services and Safeguards for Accelerating the Improvement of the Socialist Market Economic System for the New Era (《最高人民法院國家發展和改革委員會關於為新時代加快完善社會主義市場經濟體制提供司法服務和保障的意見》), or the Opinions. The Opinions set out that if the interest and fees, including interest, compound interest, penalty interest, liquidated damages and other fees, claimed by one party to the loan contract exceed the upper limit under judicial protection, the claim will not be supported by the court, and if the parties to the loan disguise the financing cost in an attempt to circumvent the upper limit, the rights and obligations of all parties to the loan will be determined by the actual loan relationship.

Furthermore, relevant regulatory and judicial authorities may change the private lending rate of interest that can be charged by unlicensed financial institutions from time to time. On August 20, 2020, China's Supreme People's Court announced its decision to revise the Provisions on Certain Issues of the Application of Laws in the Trial of Private Lending Cases (《關於審理民間借貸案件適用法律若干問題的規定》) or the Judicial Interpretation Amendment, which lower the cap fee for such private lending rate to the extent not exceeding four times of the China's benchmark one-year loan prime rate (the "**LPR**") at the time of the establishment of the loan agreement (the "**Cap Fee Limit**"). For a discussion of relevant PRC laws and regulations on interest and fee rates, see "Regulations — Regulations Relating to Loans and Interest Rate".

The PBOC lowered its benchmark lending rates in February 2020 and further in April 2020 as China's economy continued to be affected by the COVID-19 outbreak. Since April 2020, the one-year LPR has remained at 3.85%, and four times of the one-year LPR shall be 15.4%. We cannot assure you that the one-year LPR and the Cap Fee Limit will not decrease further in the future. There remain uncertainties in the interpretation and implementation of the Judicial Interpretation Amendment, including its applicability to licensed financial institutions and small loan companies, the basis of calculation formula used to determine the interest limit, the scope of inclusion of related fees, as well as inconsistencies between the standard and level of enforcement by different PRC courts. We cannot assure you that there will not be any changes to the detailed calculation formula used to determine the interest limit, and that our future fee rates will not be lowered as a result of the Cap Fee Limit. Our business, results of operations and financial condition may be adversely affected by the implementation or interpretation of the Judicial Interpretation Amendment.

Following the coming into effect of the Judicial Interpretation Amendment, we may be required to lower the average APR of our loans or adjust our business model, and the rate cap of our facilitated loans may be further lowered by any newly adopted, or by the application of any existing, laws, regulations or rulings. If we are unable to comply with such regulatory requirements, supervision or guidance or are deemed to be charging above the maximum interest rates permitted by the relevant laws, regulations, policies or guidance, we could be subject to orders of suspension, cessation or rectification, cancellation of qualifications, or other penalties, and our business, financial condition, results of operations and our cooperation with funding partners could be materially and adversely affected as a result.

We historically had a total deficit position, which may adversely affect our ability to declare and pay dividends.

As of December 31, 2017, we had total deficit of RMB1.5 billion, primarily because we incurred fair value losses of RMB1.3 billion from our Preferred Shares for the year ended 2017. As all the Preferred Shares have been converted to ordinary shares upon completion of our listing on the SEHK, fair value losses on the Preferred Shares were only recorded up to the date of listing. Under the Cayman Companies Law, we may only declare dividends out of our profits (realized or unrealized) or amounts standing to the credit of our share premium account. Therefore, if we record a total deficit position in the future, such total deficit may adversely affect our overall ability to declare and pay dividends in the future by reducing our sources for potential dividend declaration and payment.

Our failure to protect the confidential information of our borrowers may subject us to the liabilities, administrative penalty or other regulatory actions imposed by data privacy and protection laws and regulations, negatively impact our reputation and deter borrowers from using our products and services.

We collect, store and process a large volume of personal and other sensitive data provided by our users, from the CCRC and other third-party sources. Although we have taken various measures and adopted strict internal policies to protect the confidential information to which we have access, our security measures could still be breached. Confidential user data may be leaked and used for criminal purposes in the event of any accidental or willful security breaches or other unauthorized access to our system, which may expose us to liabilities, administrative penalty or other regulatory actions related to the loss of information and damage our brand and reputation.

In recent years, the PRC government has tightened the regulation of the storage, sharing, use, disclosure and protection of personally identifiable information and user data, particularly the online personal information. Relevant PRC laws and regulations require Internet service providers and other network operators, among other things, to clearly state the authorized purpose, methods and scope of the collection and usage of information and obtain the consent of users, as well as to establish user information protection system with remedial measures. We have adopted appropriate procedures to inform our borrowers and obtain their consent to use their information within the scope of authorization. In addition, we established internal system and policies to protect user information with remedial measures. However, we cannot assure you our data privacy protection system will be considered sufficient under the applicable laws and regulations due to the uncertainty of the interpretation and implementation of the existing laws and regulations. Moreover, there could be new laws, regulations or industry standards that require us to change the business practice or privacy policies we established. For example, in July 2020, the Standing Committee of the National People's Congress, or the SCNPC, published for public comment a draft Data Security Law (《數據安全法(草案)徵求意見》), which sets forth the data security protection obligations for entities and individuals handling personal data, including that no entity or individual may acquire such data by stealing or other illegal means, and the collection and use of such data should not exceed the necessary limits. Our inability to adequately address privacy concerns, even if unfound, or to comply with applicable privacy or data protection laws, regulations and privacy standards, may expose us to liability, damage our reputation, discourage the use of our products and services and harm our business.

Any breaches to our security measures, including cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions, may adversely affect our database and damage our reputation and brand.

The massive data that we have processed and stored may attract and expose us to risks of cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. Our security measures may not be effective to prevent security breaches or other unauthorized access since the techniques used to sabotage or obtain unauthorized access to systems evolve continuously and generally are hard to detect before launch. Moreover, our security measures could also be breached because of employee error, malfeasance or otherwise, or defects in our technology infrastructure. If security breaches were to occur and confidential information or data, including personal data, were stolen, leaked and used for illegal or criminal activities, we may be exposed to liabilities related to the loss of the information, time-consuming and expensive litigation and negative publicity, and our reputation, business operations and financial condition could be materially and adversely affected. The PRC Network Security Law (《中華人民共和國網絡安全法》), effective on June 1, 2017, stipulates that a network operator, including Internet information service providers, among others, must adopt technical measures and other necessary measures in accordance with applicable laws and regulations as well as compulsory national standards to safeguard the safety and stability of network operations, effectively respond to network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality and availability of network data. For a detailed discussion, see "Regulations — Regulations Relating to Internet Information Security and Privacy Protection." While we have adopted comprehensive measures to comply with the applicable laws, regulations and standards, we cannot assure you that such measures will be effective. If we were found by the regulatory authorities to have failed to comply with the PRC Network Security Law, we would be subject to warnings, fines, confiscation of illegal gains, revocation of licenses, cancelation of filings, shutdown of our businesses or even criminal liability and our business, financial condition and results of operations would be adversely affected.

If the credit or other information of a prospective borrower we receive from other parties is inaccurate or unreliable, the accuracy or effectiveness of our credit assessment and risk-based pricing may be compromised.

We perform credit assessment based on, to a significant extent, information provided by loan applicants and data provided by the CCRC, industry anti-fraud service providers, e-commerce platforms and other third-party sources. The reliability of borrower credit data is relatively limited in China. Although we implement comprehensive credit assessment procedures to verify and cross-check borrower credit data, the information provided by loan applicants to us can be inaccurate or fraudulent, and the data provided by the CCRC or third-party sources can be inaccurate or unreliable. The CCRC consumer credit database is still in the development stage and is limited in data coverage. For example, we currently do not have any comprehensive measure to determine if a prospective borrower has obtained loans from other consumer finance service providers. Moreover, credit information and analysis provided by other third parties may be falsified or tainted in the collection process and may be produced based on assumptions and methodologies undisclosed to us, which would limit our ability to properly use such data inputs in our credit assessment and risk-based pricing. In addition, historical data and analysis may not provide a reliable basis to assess an applicant's credit profile where the economic conditions have changed or the financial conditions of such applicant deteriorates after the loan has been funded. Our granular risk-based pricing is made by taking into consideration hundreds of effective variables. If the underlying data is outdated, incomplete, inaccurate or otherwise not indicative of the creditworthiness of the borrowers, the accuracy or effectiveness of our credit assessment and risk-based pricing may be compromised, in which case we may approve less creditworthy borrowers from whom we are unable recoup funds or effectively control our delinquency ratios, which will harm our reputation and results of operations.

Fraudulent or illegal activities could negatively impact our operating results, brand and reputation.

We are subject to the risk of fraudulent or illegal activities associated with borrowers and other third-party service providers handling user information. We cannot assure you that our existing fraud detection measures are or will be sufficient to accurately detect and prevent fraud or illegal activities. For instance, currently, the coverage of credit data available to us is limited and we lack a comprehensive way to know private borrowings of our borrowers from other consumer finance service providers. The borrowers may use the loans originated by us to repay the loans they borrowed from other consumer finance service providers, which could expose us to higher risk. Moreover, we may not be able to monitor our borrowers' actual use of the financing, or detect suspicious or illegal transactions, such as money laundering. An increase of fraudulent or illegal activities associated with our products could negatively impact our brand and reputation, discourage funding partners from funding the loans facilitated by us and lead us to take additional steps to reduce relevant risks, which could increase our costs. High profile fraudulent or illegal activities could even lead to regulatory intervention and may divert our management's attention and cause us to incur additional expenses and costs. Although we have not experienced any material business or reputational harm as a result of fraudulent or illegal activities in the past, we cannot assure you that any of the foregoing will not occur and harm our business or reputation in the future.

We have established business collaborations in the areas of joint-modeling and precision marketing with several Chinese Internet technology conglomerates. Failure to maintain relationship with these business partners may materially and adversely affect our business, financial condition and results of operations.

We have deep collaborations with our business partners in the areas of joint modeling and precision marketing. In particular, we carry out joint modeling programs with several Chinese Internet technology conglomerates that can provide us with access to valuable data types and user cases that are otherwise not commercially available. Through these collaborations, we have developed scorecards specifically tailored to the business partners' user cases as we jointly determine and combine valuable data variables from our partners with our know-how and modeling capabilities. Furthermore, the process of joint-modeling enriches our modeling know-how, improves our risk-based pricing capabilities and fosters trust with our business partners for ongoing and deeper cooperation. We anticipate that we will continue to leverage our relationships with existing business partners to develop our business while pursuing new relationships with additional business partners.

We have invested significant time and resources to establish, maintain and further develop our relationships with our business partners. Most of our agreements with business partners do not prohibit them from working with our competitors or from offering competing services. If our business partners decide not to continue to work with us or they devote more resources to supporting our competitors or their own competing businesses, we may not be able to find a substitute on commercially favorable terms, or at all. In addition, if our business partners do not perform as expected or if we have material disputes with them, our business and results of operations may be adversely affected.

Failure by us, our funding partners or our third-party service providers to comply with applicable anti-money laundering laws and regulations could damage our reputation and subject us to regulatory fines, sanctions or legal enforcement.

We are subject to the obligations of anti-money laundering according to the Internet Finance Guidelines. The Internet Finance Guidelines, among other things, require online finance service providers to comply with certain anti-money laundering requirements, including the establishment of a customer identification program, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. To comply with the Internet Finance Guidelines, we have adopted various policies and procedures, such as internal controls and "know-your-customer" procedures, for the prevention of money laundering and other illegal activities. Such policies and procedures may not completely eliminate instances where our customers may use the proceeds from the loans to engage in money laundering or other illegal or improper activities. We cannot assure you our policies and procedures would be effective in preventing other parties from using us as a conduit for money laundering without our knowledge or that we will be deemed to be in compliance with applicable laws given the anti-money laundering obligations in the Internet Finance Guidelines are not specified. If we were to be associated with money laundering (including illegal cash operations), our reputation could suffer and we could become subject to regulatory fines, sanctions, or legal enforcement.

In addition, our funding partners, which are mostly licensed financial institutions, and our third-party service providers, in particular payment companies, may also be subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations and are regulated in that respect by the PBOC. We currently rely on these funding partners and payment companies to adopt and implement their own anti-money laundering policies and procedures. If any of our funding partners or third-party service providers fails to adopt or implement appropriate anti-money laundering policies or procedures, or otherwise comply with applicable anti-money laundering laws and regulations, our reputation could suffer and we could become subject to regulatory intervention, which could have a material adverse effect on our business, financial condition and results of operations.

If we or our third-party loan servicing teams cannot effectively and properly collect delinquent loans, our business and results of operations may be materially and adversely affected.

We primarily rely on our in-house loan servicing team to handle the collection of delinquent loans. For the loans delinquent for a relatively long period of time, we engage third-party loan servicing teams to assist us. To maximize cost efficiency, both our in-house and third-party loan servicing teams service the collection of loans via phone calls, voice mails and text messages. For loans of relatively large amounts, we may also use collection methods such as in-person visits or legal proceedings. If these servicing methods become less effective, we may not be able to collect delinquent loans, and we and our funding partners may suffer losses. If under the relevant laws and regulations, including Circular 141, these collection methods are determined as harassments, threats, forced collection or other illegal activities, or third-party loan servicing teams use any other aggressive measures or misconduct in the servicing process, we may be subject to lawsuits, administrative penalties, or other regulatory actions, be prohibited from using these collection methods or suffer reputational damage. If this happens and we fail to adopt alternative collection methods in a timely manner or the alternative collection methods are not effective, we may not continue to effectively service our loans and our funding partners' confidence in our products and services may be negatively affected.

The recent outbreak and resurgence of COVID-19 in China has also negatively impacted the effectiveness of our collection efforts. The outbreak and resurgence has caused, and may continue to cause us to implement temporary adjustment of work schemes for our collection team, allowing our employees to work from home and adopt remote collaboration. We have taken measures to reduce the impact of this epidemic outbreak, including upgrading our telecommuting system, monitoring our employees' health on a daily basis and optimizing our technology system to meet the ongoing requirements. However, we have experienced and may continue to experience lower work efficiency and productivity, which has adversely affected and may continue to adversely affect our service quality and collections efforts. See "— Our business has been and is likely to continue to be materially adversely affected by the outbreak and resurgence of COVID-19 in China."

If we fail to promote and maintain our brand, or our brand is impaired due to negative publicity with respect to us, our business partners or other online consumer finance service providers in general, our business and results of operations may be harmed.

We believe that enhancing and maintaining awareness of our VCREDIT and *KK Credit* brands is critical to achieving widespread acceptance of our credit products, gaining trust for our services and attracting new borrowers and institutional funding providers. Successful promotion of our brand depends largely on the quality of the services we offer and the effectiveness of our branding and marketing efforts. It is likely that our branding and marketing efforts will require us to incur significant expenses and devote large amounts of resources. Brand promotion activities may not yield increased total income in the near term, and, even if they do, any total income increases may not offset the expenses we incur to promote our brand. If we are unable to maintain and further enhance our brand recognition and reputation, we may not be able to grow our borrower bases and our results of operations and financial condition may be adversely affected.

Unfavorable publicity related to us, our business partners or our industry could also affect our brand and reputation. Prospective borrowers and funding providers may be prevented from engaging in transactions with us if there is any malicious or negative publicity in connection with the use of our services or products, including those relating to the integrity of business practices, risk management capabilities, compliance with laws, and financial condition or prospects, whether with merit or not. Negative publicity surrounding our shareholders, Directors, management and their associates may also impact our reputation, whether or not directly related to us or our operations. Furthermore, negative publicity about other market players or isolated incidents, whether or not factually correct, such as widespread borrower defaults, fraudulent behavior, campus lending and/or the closure of other online consumer finance service providers, may result in negative perception of our industry as a whole and undermine the credibility we have established. These types of negative developments in the online consumer finance market may lead to tightened regulatory scrutiny and limit the scope of our permissible business activities. For instance, since 2015, there has been a number of reports of business failures of, or accusations of fraud and unfair dealing against, certain companies in China's consumer finance market. Although we believe that our business activities are legal and appropriate, if we are somehow associated with these companies or practices, borrowers, funding partners and other business partners may be less willing to engage in borrowing and funding activities with us, which could materially and adversely affect our business and results of operations.

Any undetected errors on our highly complicated software and IT infrastructure or any significant disruption to services on our mobile apps and our or our third-party service providers' systems, including events beyond our control, could adversely affect our business.

Our ability to deliver our services in a quality and timely manner depends on the satisfactory performance and reliability of our IT infrastructure and systems. The software and IT infrastructure on which we rely used to contain, and may now or in the future contain, undetected errors or bugs. Some errors may only be discovered after the code has been released for external or internal use. Errors or other design defects within the software and IT infrastructure on which we rely may result in a negative experience for the users of our mobile apps, delay introductions of new features or enhancements, result in errors or inaccuracy of data analysis, or compromise our ability to protect users' data or our intellectual property.

Furthermore, the IT infrastructure may be vulnerable to significant natural disasters, such as a fire, flood or earthquake, or man-made problems, such as power outage, strikes, terrorism or cyber-attacks. In addition, our operations also depend on the systems of our third-party service providers, including, among others, payment channels and telecommunications carriers and Internet data centers. Despite the disaster recovery plans we have adopted and other precautions we have taken, the occurrence of natural disasters or man-made problems on our or our third party providers' systems may cause lengthy interruptions in our services, and we may not have sufficient capacity to recover all data and restore services after the interruptions.

If any serious errors, bugs or defects were to be discovered in our software or IT infrastructure, or the IT infrastructure of us or our service providers were to experience any significant disruptions, we may not be able to protect our confidential information, users' data or intellectual property, or provide services to borrowers on our mobile apps and to our funding partners in a timely and efficient manner, which could harm our reputation and reduce the attractiveness of our services to borrowers and funding partners. Additionally, we currently do not maintain business interruption insurance to compensate us for potentially significant losses, including potential harm to our business that may result from interruptions in our loan facilitation services and solutions.

Any deficiencies in China's Internet infrastructure and fixed telecommunications networks could impair our ability to process loan transactions.

Any interruptions or delays in China's Internet infrastructure and fixed telecommunications networks, whether as a result of errors, natural disasters, health pandemics such as COVID-19 or security breaches, whether accidental or willful, could delay or prevent us from delivering satisfactory services and result in a loss of our borrowers and funding partners. Almost all access to the Internet in China is maintained through state-owned telecommunications operators under their administrative control. We primarily rely on a limited number of telecommunications service providers to provide us with data communications capacity through local telecommunications lines and Internet data centers to host our servers. We have limited access to alternative networks or services on commercially acceptable terms. In addition, web traffic in China has experienced significant growth during the past few years. Effective bandwidth and server storage at internet data centers in large cities are scarce. If we are unable to increase our online service delivering capacity as we expand our business, or the cost we pay for telecommunications and Internet services rises significantly, our results of operations may be adversely affected.

Any failure to protect our intellectual property could harm our business and competitive position.

Protection of our own intellectual property from unauthorized use is critical to our success. We rely on a combination of intellectual property laws regarding copyright, patents, trade secrets, trademarks and other rights, as well as contractual arrangements, including confidentiality agreements with our employees and others, to protect our proprietary rights. See also "Business — Intellectual Property." However, these measures may be inadequate to protect any of our intellectual property rights from being challenged, invalidated, circumvented, infringed or misappropriated by third parties. Furthermore, our efforts to protect our brand and intellectual property rights may not always be effective and may be costly. We regularly file applications to register our trademarks in China. Our applications may be challenged by third parties or rejected. As there are small loans and other companies that have company names or trademarks similar to ours, prospective borrowers, funding partners and other stakeholders may confuse those companies with us, or even associate us with negative publicity, if any, related to those companies, which could undermine our brand and reputation.

It is often difficult to effectively protect intellectual property rights or to enforce contractual rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Contractual arrangements, such as confidentiality, invention assignment and non-compete agreements, may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to prevent misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could be costly, time-consuming and distracting to our management. We can provide no assurance that we will prevail in such litigation. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.

Our operations may infringe upon or otherwise violate trademarks, patents, copyrights, know-how or other intellectual property rights held by third parties. From time to time, we may be subject to legal proceedings and claims relating to the intellectual property rights of others. To the extent that our business and internal systems rely on software licensed from third parties, we rely on such third parties to maintain their proprietary intellectual property rights or licensing rights. There can be no assurance that our use of such intellectual property rights will not be challenged by others. Third parties may initiate legal proceedings or bring claims against us alleging our infringement of their intellectual property rights. Any legal proceedings or claims, with or without merit, may cause us to incur significant expenses and divert our management's attention. Successful claims asserted against us may result in substantial damages or royalties and may materially disrupt our business operations by restricting or prohibiting our use of such intellectual property.

Additionally, the application and interpretation of China's intellectual property right laws and the procedures and standards for granting trademarks, patents, copyrights, know-how or other intellectual property rights in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we were found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. As a result, our business and results of operations may be materially and adversely affected.

We are involved in legal proceedings in the ordinary course of our business from time to time. If the outcomes of these proceedings are adverse to us, it could have a material adverse effect on our business, results of operations and financial condition.

We are involved in various litigation matters in the ordinary course of business from time to time, which could have a material adverse effect on our business, results of operations and financial condition. Furthermore, claims arising out of actual or alleged violations of law could be asserted against us by individuals, either individually or through class actions, by governmental entities in civil or criminal investigations and proceedings or by other entities. These claims could be asserted under a variety of laws and regulations, including but not limited to consumer finance laws, online or private lending laws, consumer protection laws, intellectual property laws, information security and privacy laws, and labor and employment laws. For further details, see "Business — Legal Proceedings and Compliance." These actions could expose us to adverse publicity and to monetary damages, fines and penalties, as well as suspension or revocation of licenses or permits to conduct business. Even if we eventually prevail in these matters, we could incur significant legal fees or suffer reputational harm, which could have a material adverse effect on our business and results of operations as well as our future growth and prospects.

Our success depends on the continuing efforts of our key employees, including our senior management members and technology talents. If we fail to hire, retain and motivate our key employees, our business may suffer.

We believe our future success depends on our continued ability to retain, motivate, attract and develop qualified and skilled employees, in particular our senior management members and our technology talents, namely Mr. Liu, Mr. Liu Sai Keung Thomas, and Mr. Jin Jiafang. While we have provided incentives to our management members and other key employees, we cannot assure you that we can continue to retain their services. Some of the companies with which we compete for experienced employees may have greater resources than we do and may be able to offer more attractive terms of employment. If our key employees cease to serve us, our future growth may be constrained, our business may be severely disrupted, and we may incur additional expenses to recruit, train and retain qualified personnel to replace them.

In addition, although we have entered into confidentiality and non-compete agreements with our key employees, there is no assurance that any of our key employees will not join our competitors, form a competing business, or share our confidential information with our competitors or any third party. If any dispute arises between our current or former employees and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may be unable to enforce them at all.

If we cannot maintain our corporate culture as we grow, we could lose the innovation, collaboration and focus that contribute to our business.

We believe that a critical component of our success is our corporate culture, which we believe fosters innovation, arouses consciousness of risks, encourages teamwork and cultivates efficiency and creativity. We encourage our personnel to take ownership in their work, cultivate their awareness and capability of risk management, and help them achieve their full potential to be as innovative, creative and collaborative as possible. As we develop the infrastructure of a public company and continue to grow, we may find it difficult to maintain these valuable aspects of our corporate culture. Any failure to preserve our culture could negatively impact our future success, including our ability to attract and retain employees, encourage innovation and teamwork and effectively focus on and pursue our corporate objectives.

From time to time we may evaluate and consummate strategic investments or acquisitions or establish strategic alliances, which could divert significant management attention and resources, disrupt our business and adversely affect our financial results.

We may evaluate and consider strategic investments and acquisitions or enter into strategic alliances to develop new products, services or solutions and enhance our competitive position.

Investments or acquisitions involve numerous risks, including the potential failure to achieve the expected benefits of the combination or acquisition; difficulties in, and the cost of, integrating operations, technologies, services and personnel; potential write-offs of acquired assets or investments; and downward effect on our operating results. These transactions will also divert the management's time and resources from our normal operations and we may have to incur unexpected liabilities or expenses.

We may also in the future enter into strategic alliances with various third parties. Strategic alliances with third parties could subject us to a number of risks, including risks associated with potential leakage of proprietary information, non-performance by the counterparty and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business.

Our insurance coverage may not be adequate, which could expose us to a significant costs and business disruptions.

Insurance companies in China currently do not offer as extensive an array of insurance products as those in more developed economies and are, to our knowledge, not well-developed in the field of business liability insurance. We do not have any business liability or disruption insurance to cover our operations. As such insurance products are not readily available where we operate our business, we believe that the costs of insuring for business liability and disruption risks and the difficulties associated with acquiring such insurance from insurance companies out of China could make it commercially unreasonable for us to have such insurance. Any uninsured business disruptions may result in substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.

We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.

Our business could be adversely affected by the effects of epidemics. This year, our business has been affected by the outbreak and resurgence of COVID-19. In more recent years, there have been breakouts of epidemics in China and globally. Our business operations could be disrupted if one of our employees contracts or is suspected of having COVID-19, H1N1 flu, avian flu or another epidemic, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the Chinese economy in general or our business environment in particular. We are also vulnerable to natural disasters and other calamities, which may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, and adversely affect our ability to provide services.

Risks Relating to Doing Business in China

Adverse changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations.

Since our business operations are conducted in China, our business, financial position, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing and the allocation of resources. The PRC government exercises significant control over China's economic growth through imposing industrial policies, allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the Chinese economy has grown significantly in the past three decades, the growth has been uneven, both geographically and among various sectors of the economy. The growth rate of the Chinese economy has gradually slowed since 2010, and COVID-19 could have a significant adverse impact on China's economic growth for the full year of 2020. According to statistics from the National Bureau of Statistics of China, in the first quarter of 2020 China's GDP shrank by 6.8%, compared to growth of 6.4% in the first quarter of 2019, demonstrating the significant pressure of the outbreak on China's economy. In addition, according to the International Monetary Fund, China's GDP growth is currently projected to be 1.2% for the full year of 2020 as a result of COVID-19, compared to 6.1% for the full year of 2019. The macroeconomic slowdown in China from COVID-19 appears to have weighed on growth in the online consumer finance market during the first quarter of 2020, and may continue to weigh on such growth for the full year of 2020. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations. Additionally, the ongoing trade dispute and global economic volatility may impose further uncertainty on our business. Any adverse changes in economic conditions in China or in the laws, regulations or policies in China could have a material adverse effect on the overall economic growth of China, which may in turn reduce the demand for our services and products and lead to adverse effects on our business and results of operations.

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

We conduct our business through our PRC subsidiaries and our operations in China are governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike in the common law system, prior court decisions may be cited for reference but have limited precedential value.

Since 1979, the PRC government began to promulgate a comprehensive system of laws, rules and regulations governing economic matters in general. However, since the PRC legal system continues rapidly evolving, the interpretation of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties. In particular, the regulatory framework of the consumer finance market is yet to fully develop. Since the administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of Chinese administrative and court proceedings and the level of legal protection we enjoy in China than in more developed legal systems. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. Any failure in response to the change of regulatory environment in a timely manner may lead to a material adverse effect on our business and results of operations.

Governmental control of currency conversion may limit our ability to utilize our total income effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Our PRC subsidiaries receive all of our total income in Renminbi. Our Company's income primarily relies on dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations.

Under existing PRC foreign exchange regulations, Renminbi is freely convertible to foreign currencies with respect to "current account" transactions, but not with respect to "capital account" transactions. Approval or registration from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. Dividend payments are current account transactions, which can be made in foreign currencies by complying with certain procedural requirements but do not require prior approval from SAFE. In light of the flood of capital outflows from China in 2016 due to the weakening Renminbi, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting process have been put in place by SAFE to regulate cross-border capital account transactions. The PRC government may at its discretion further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

Fluctuations in exchange rates of Renminbi against foreign currencies could materially affect our reported results of operations.

The value of Renminbi against foreign currencies, including Hong Kong dollars and U.S. dollars, is affected by, among other things, changes in political and economic conditions in China and by China's foreign exchange policies. It is difficult to predict how market forces or government policies may impact the exchange rate between the Renminbi and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals.

For the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we booked exchange gains of RMB171.4 million, RMB44.1 million, exchange loss of RMB0.5 million, exchange gains of RMB4.4 million and exchange loss of RMB3.9 million, respectively, on translation of financial statements on our consolidated statements of comprehensive income. As all of our total income is denominated in Renminbi, any significant revaluation of Renminbi may materially and adversely affect our cash flows, total income, earnings and financial position, and the value of, and any dividends payable on, our shares in Hong Kong dollars or U.S. dollars. For example, if we decide to convert our Renminbi into Hong Kong dollars or U.S. dollars for the purpose of making payments for dividends on our shares or for other business purposes, appreciation of Hong Kong dollars or U.S. dollars against the Renminbi would have a negative effect on the U.S. dollar amount available to us. Conversely, to the extent that we need to convert Hong Kong dollars or U.S. dollars we receive from this offering into Renminbi for our operations, appreciation of Renminbi against Hong Kong dollars or U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion.

Increase in labor cost in China may adversely affect our business and results of operation.

The economy in China has experienced increases in inflation and labor costs in recent years. As a result, average wages in China are expected to continue to increase. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pension, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government authorities for the benefit of our employees. The relevant government authorities may examine whether an employer has made adequate payments to the statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to control our labor costs or pass on these increased labor costs, our financial condition and results of operations may be adversely affected.

We rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and repay any debt we may incur. If any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Under PRC laws and regulations, our PRC subsidiaries may pay dividends only out of their respective accumulated after-tax profits as determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such funds reaches 50% of its registered capital. At its discretion, each of our PRC subsidiaries may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also "— If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders."

PRC regulations on loans and direct investments by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC entities.

We are an offshore holding company primarily conducting our operations in China. We may make loans or additional capital contributions to our PRC subsidiaries subject to approval by or registration with relevant government authorities in China.

Any loans to our PRC subsidiaries, which are treated as foreign invested enterprises, or FIEs, under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, any foreign loan procured by our PRC subsidiaries is required to be registered with the State Administration of Foreign Exchange, or SAFE, or its local branches, and our PRC subsidiaries may not procure loans which exceed the difference between their respective registered capital and registered total investment amount. Additionally, any medium or long-term loan to be provided by us to our PRC subsidiaries must be recorded and registered by the National Development and Reform Committee and SAFE or its local branches. We may also decide to finance our PRC subsidiaries by means of capital contributions. According to the relevant PRC regulations on FIEs in China, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System and registration with other government authorities in China.

In March 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular 19, which took effect on June 1, 2015. Although SAFE Circular 19 allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, it also reiterates the principle that Renminbi converted from foreign currency-denominated capital of an FIE may not be directly or indirectly used for expenditures beyond its business scopes. In June 2016, SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange (《關於改革和規範資本項目結匯管理政策的通知》), or SAFE Circular 16. SAFE Circular 16 reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using Renminbi converted from foreign currency-denominated registered capital of an FIE to issue Renminbi entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in China the net proceeds from this offering, which may adversely affect our business, financial condition and results of operations.

In light of the various requirements imposed by PRC laws and regulations on loans to, and direct investment in, PRC entities by offshore holding companies, we cannot assure you that we will be able to complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to complete such recording or registration, our ability to use the proceeds of this offering and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

In August 2006, six PRC regulatory authorities, including the PRC Ministry of Commerce, promulgated the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A Rules, which became effective on September 8, 2006 and were amended on June 22, 2009. Among other things, the M&A Rules and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. For example, the M&A Rules require that the PRC Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the PRC Anti-Monopoly Law (《中華人民共和國反壟斷法》) requires that the PRC Ministry of Commerce shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the PRC Ministry of Commerce that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the PRC Ministry of Commerce, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. We cannot preclude the possibility that the PRC Ministry of Commerce or other government authorities may publish interpretations to broaden the scope of such security review in the future. Although we have no current plans to make any direct acquisitions in China, we may elect to grow our business in the future in part by directly acquiring complementary businesses. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the PRC Ministry of Commerce, may delay or inhibit our ability to complete such transactions.

We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and PRC withholding taxes on interest we pay on the Notes.

Under PRC tax laws effective prior to January 1, 2008, dividends, interest and other amounts paid to foreign investors by foreign-invested enterprises, such as amounts paid to us by our operating subsidiaries in China, were exempt from PRC withholding tax. Under the new PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) or the EIT Law, effective from January 1, 2008, and its implementation rules, enterprises established outside the PRC whose "de facto management bodies" are located in China are considered "resident enterprises" for PRC tax purposes. The implementation rules define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. In April 2009, the SAT specified certain criteria for the determination of the "de facto management bodies" for foreign enterprises that are controlled by PRC enterprises. However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises that are not controlled by PRC enterprises (including companies like ourselves).

We hold our shareholders' meetings and board meetings outside China and keep our shareholders' list outside China. However, most of our directors and senior management are currently based inside China and we keep our books of account inside China. The above elements may be relevant for the tax authorities in determining whether we are PRC resident enterprises for tax purposes. However, there is no clear standard published by the tax authorities for making such determination.

Although it is unclear under PRC tax law whether we have a "de facto management body" located in China for PRC tax purposes, we take the position that we are not a PRC resident enterprise for tax purposes. We cannot assure you that the tax authorities will agree with our position. If we are deemed to be a PRC resident enterprise for EIT purposes, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income. Furthermore, we would be obligated to withhold PRC income tax of up to 7%, subject to approval by the relevant tax authorities, on payments of interest and certain other amounts on the Notes to investors that are non-resident enterprises located in Hong Kong or 10% on payments of interest and other amounts on the Notes to investors that are non- resident enterprises located outside Hong Kong (or we may be required to withhold 20% in the case of payments to individuals), because the interest and other amounts would be regarded as being derived from sources within the PRC. In addition, if we fail to do so, we may be subject to fines and other penalties. Similarly, any gain realized by such non-resident enterprise investor from the transfer of the Notes would be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10% of PRC withholding tax (or 20% in the case of individuals).

We benefit from certain preferential tax treatment, the loss of which could have an adverse impact on our results of operations and financial position.

We currently benefit from certain preferential tax treatment. One of our PRC subsidiaries, VC Financial Technology, is qualified as a high and new technology enterprise in Shanghai and therefore enjoys the preferential tax rate of 15% for its income tax from 2018 to 2020. VC Financial Technology is our main operating entity engaged in loan facilitation services. We cannot assure you that we will continue to benefit from such preferential tax treatment or that such tax policies will be extended. Expiration or changes to any preferential tax treatment, tax concessions or tax allowances applicable to us or our subsidiaries could adversely affect our financial condition.

Certain of our leased property interests may be defective and we may be forced to relocate operations affected by such defects, which could cause significant disruption to our business and have a negative impact on our operation and financial results.

As of September 30, 2020, we lease a majority of the premises used in our operations from third parties. With respect to a portion of these leased properties, the lessors failed to provide valid title certificates or authorization of sublease for our leased properties. According to PRC laws and regulations, in situations where a lessor lacks evidence of the title or the right to lease, the relevant lease agreement may not be valid or enforceable, and we may face challenges from third parties regarding our leasehold rights. We cannot assure you that such defects can be cured at reasonable costs, or at all. If we are required to relocate our operations due to such defects, our operations may be affected and additional relocation costs may be incurred. In addition, none of our lease agreements have been registered with the competent governmental authority. According to PRC laws and regulations, the failure to register the lease agreement will not affect its effectiveness between the tenant and the lessor. However, the lessor and the tenant may be subject to administrative fines of up to RMB10,000 each for such failure to register the lease.

As of September 30, 2020, we are not aware of any action, claim or investigation being conducted or threatened by any third parties or the competent government authorities with respect to the defects in our leased properties. However, if we are unable to continue our operations on the current premises or find a suitable replacement on a timely basis or at reasonable costs, or if we are fined or penalized by government authorities due to our lessors' failure to register our lease agreements, our business and financial condition may be negatively impacted.

Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, SAFE promulgated the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Companies (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》). Under such notice and other relevant rules and regulations, individuals participating in any stock incentive plan of any overseas publicly listed company who are PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a qualified PRC agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas-entrusted institution or other material changes. We and our executive officers and other employees who are PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year and have been granted options are subject to these regulations following the completion of the listing of our shares on the Main Board of SEHK in 2018. Failure by these individuals to complete their SAFE registrations may subject us and them to fines and other legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends to us or otherwise materially and adversely affect our business, financial condition and results of operations. For a discussion of such rules on stock incentive plans, see "Regulations — Regulations Relating to Stock Incentive Plans."

In addition, SAT, has issued certain circulars concerning employee share options and restricted shares. Under these circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC government authorities.

Risks Relating to the Notes

The Notes are subject to optional redemption by the Company.

Pursuant to terms of the Notes, the Company may elect to redeem the Notes prior to their maturity in whole or in part at the price specified in the section entitled "*Description of the Notes — Optional Redemption*." An optional redemption feature is likely to limit the market value of the Notes. During any period when we may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be the case prior to any redemption period. We may be expected to redeem Notes when the current financing cost is lower than the interest rate on the Notes. In such case, a holder of the Notes generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to reinvest so at a significantly lower rate. It may therefore cause a negative financial impact on the holders of the Notes. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Trustee may request the holders of the Notes to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, including without limitation giving of notice to the Company and taking enforcement steps pursuant to terms of the Notes, the Trustee may, at its sole discretion, request the holders of the Notes to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of the holders of the Notes. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the trust deed or the terms of the Notes and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Notes to take such actions directly.

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries or certain of our other existing subsidiaries, and will be initially guaranteed by Vision Credit Limited and Asia Jumbo Group Limited. Our primary assets are ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) and certain Non-Guarantor Subsidiaries (if any) incorporated outside China. The Subsidiary Guarantors do not, and the JV Subsidiary Guarantors (if any) may not, have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be) will depend upon our receipt of distributions of dividends principally from our PRC subsidiaries. Further, the consolidated financial statements of the Company and our subsidiaries includes entities that are not Subsidiary Guarantors or JV Subsidiary Guarantors (if any). Potential investors should take this into consideration when deciding whether to invest in the Notes.

Creditors, including our lenders and funding partners of our PRC subsidiaries and any holders of preferred shares in such entities, would have a claim on our PRC subsidiaries' assets that would be prior to the claims of the holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our PRC subsidiaries (including obligations of our PRC subsidiaries under guarantees issued in connection with our business), and all claims of creditors of our PRC subsidiaries, will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of September 30, 2020, our PRC subsidiaries had unsubordinated indebtedness in the amount of RMB3,621.9 million (US$533.4 million) and had not provided guarantees to PRC banks in respect of the loans and financing provided by banks and our funding partners to our customers. In addition, our secured creditors would have priority as to our assets securing the related obligations over claims of holders of the Notes.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our total borrowings as of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020 were approximately RMB11,063.1 million, RMB8,170.2 million, RMB9,236.3 million, RMB5,525.8 million and RMB4,168.0 million, respectively.

Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Although the indentures governing the 2021 Notes and the Notes and other financing agreements restrict us and our Restricted Subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, the terms of the indentures governing the 2021 Notes and the Notes and other financing agreements prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratios requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our financing arrangements also impose operating and financial restrictions on our business. This in turn may impact our ability to raise funds through equity financing. See "Description of Other Material Indebtedness." Such restrictions in the 2021 Notes, the Notes and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the 2021 Notes, the Notes and our other debt.

The Notes are not secured by our assets and the lenders under our credit facilities will be entitled to remedies available to secured lenders, which gives them priority over the holder of the Notes.

Payment obligations under the Notes, the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) are not secured by any assets, including the Debt Service Account. The Notes will be effectively subordinated in right of payment to all of our secured indebtedness to the extent of the value of the assets securing such indebtedness. Creditors, including our lenders and funding partners of our PRC subsidiaries and any holders of preferred shares in such entities, would have a claim on our PRC subsidiaries' assets that would be prior to the claims of the holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our PRC subsidiaries (including obligations of our PRC subsidiaries under guarantees issued in connection with our business), and all claims of creditors of our PRC subsidiaries, will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of September 30, 2020, our PRC subsidiaries had unsubordinated indebtedness in the amount of RMB3,621.9 million (US$533.4 million) and had not provided guarantees to PRC banks in respect of the loans and financing provided by banks and our funding partners to our customers. In addition, our secured creditors would have priority as to our assets securing the related obligations over claims of holders of the Notes. For example, the secured creditors could foreclose and sell those assets in which they have been granted a security interest to the exclusion of the holder of the Notes, even if an event of default exists under the Notes at that time. As a result, upon the occurrence of any of these events, there may not be sufficient funds to pay amounts due on the Notes.

The Company or the Subsidiary Guarantors may make amendments to and seek waivers from certain provisions of the Indenture.

Under certain circumstances as described below under "*Description of the Notes — Amendments and Waiver — Amendments Without Consent of Holders,*" the Company or the Subsidiary Guarantors may, from time to time, and without prior consultation with the holders of Notes, make certain amendments to the Indenture. Further, under certain circumstances as described below under "*Description of the Notes — Amendments and Waiver — Amendments With Consent of Holders,*" the Company or the Subsidiary Guarantors may, from time to time, and with the consent of the holders of Notes of not less than a majority in aggregate principal amount of the outstanding Notes, make certain amendments to the Indenture or waive future compliance by the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, if any, with certain provisions of the Indenture. If the requisite consents are obtained (if required) and/or the relevant conditions are satisfied (or waived) and such amendments or waivers become operative, all holders of Notes will be bound by the terms of the Indenture as amended, whether or not a holder of Notes delivered such a consent. Such amendments or waivers could materially increase the credit risks faced by holders of Notes or could otherwise be materially adverse to the interests of the holders of Notes.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

As a holding company, we depend, and will depend in the future, on the receipt of dividends and the interest or principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, restrictions contained in the debt instruments of such subsidiaries and applicable laws. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the ability of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be.

In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities would not be available to us to make payments on the Notes.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with IFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends by the board of directors. In practice, our PRC subsidiaries may pay dividends once a year. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be, and there could be restrictions on payments required to pay off the Notes at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders' loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% withholding tax on our behalf on the interest paid under any shareholders' loans. PRC regulations require any of our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries to be registered with SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the 10% withholding tax on the interest payable in any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be.

We may be subject to risks presented by fluctuations in exchange rates between Renminbi and other currencies, particularly U.S. dollars.

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, RMB-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy. On June 20, 2010, the PBOC announced its intention to further reform the Renminbi exchange rate regime by allowing greater flexibility in the Renminbi exchange rate, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar or other foreign currency. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 28.8% from July 21, 2005 to December 31, 2011, according to rates published by Bloomberg. These changes in currency policy resulted in Renminbi appreciating against the U.S. dollar and the H.K. dollar from 2005 to 2013. In August 2015, the Renminbi experienced a substantial devaluation as a result of adjustments made by the PBOC to the reference Renminbi to U.S. dollar exchange rate. The Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in Renminbi exchange rates and lessen intervention in the foreign exchange market.

The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar-denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted to U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to such risks. Following the offering of the Notes, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar denominated liabilities under, amongst others, the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under such agreements, and the amount of collateral required may increase as a result of mark- to-market adjustments. The Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the indenture. If we were unable to provide such collateral, it could constitute a default under such agreements.

We may not be able to repurchase the Notes upon a Change of Control Triggering Event

We must offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Description of the Notes."

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of outstanding Notes. Our failure to make the offer to purchase or purchase the outstanding Notes would constitute an event of default under the Notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of Change of Control Triggering Event for purposes of the indenture governing the Notes does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of Change of Control for purposes of the indenture governing the Notes also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes, and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

There may be difficulties in enforcing United States judgments against us and our management.

We are registered by way of continuation in the Cayman Islands. All of our directors and management (and certain of the other parties named in this offering memorandum) reside outside the United States, and all of our assets are located outside the United States. As a result, it may be difficult or impossible for investors to effect service of process upon us or such persons within the United States or other jurisdictions, or to enforce against us or such persons in such jurisdiction, judgments obtained in courts of that jurisdiction, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States. In particular, you should be aware that there is uncertainty as to whether judgments of United States courts based upon the civil liability provisions of the federal securities laws of the United States will be enforceable in the courts of the Cayman Islands and whether the Cayman Islands courts will enter judgments in original actions brought in Cayman Islands courts based solely upon the civil liability provisions of the federal securities laws of the United States.

Even if you are successful in bringing an action against us or our Directors or officers, the laws of China may render you unable to enforce a judgment against our assets or the assets of our Directors and officers. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other developed countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

The insolvency laws of the Cayman Islands, Hong Kong, the British Virgin Islands and other local insolvency laws may differ from U.S. bankruptcy law or those of other jurisdictions with which holders of the Notes are familiar.

Because we and the initial Subsidiary Guarantors are registered by way of continuation or incorporated, and the JV Subsidiary Guarantors (if any) may be incorporated, under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands, an insolvency proceeding relating to us or any such Subsidiary Guarantor or JV Subsidiary Guarantor, even if brought in the United States, would likely involve Cayman Islands, Hong Kong or British Virgin Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law. In addition, our future Subsidiary Guarantors and JV Subsidiary Guarantors (if any) are incorporated or may be incorporated in other non-U.S. jurisdictions and the insolvency laws of such other jurisdictions may also differ from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

We conduct substantially all of our business operations in China through PRC-incorporated subsidiaries. Vision Credit HK, one of the Subsidiary Guarantors, as equity holder in our PRC subsidiaries, is necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. Any JV Subsidiary Guarantors which become equity holders of our PRC subsidiaries would also be subject to such laws. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze these risks and related uncertainties carefully before you invest in the Notes.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC including evidence that the relevant PRC taxes have been paid. If any of our PRC subsidiaries for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency, such PRC subsidiary will be unable to pay us dividends, which would adversely affect our ability to satisfy our obligations under the Notes.

Under PRC regulations, we may not be able to transfer to our PRC subsidiaries proceeds from this offering in the form of a loan, which could impair our ability to make timely payments of interest, or even principal, under the Notes.

According to the existing PRC rules and regulations relating to supervision of foreign debt, loans by foreign companies to their subsidiaries in China, such as our PRC subsidiaries established as foreign-invested enterprises in China, are considered foreign debt, and such loans must be registered with the relevant local branches of SAFE. Such rules and regulations also provide that the total outstanding amount of such foreign debt borrowed by any foreign-invested enterprise may not exceed the difference between its total investment and its registered capital, each as approved by the relevant PRC authorities. Without having the flexibility to transfer funds to our PRC subsidiaries as loans, we cannot assure you that sufficient dividend payments from our PRC subsidiaries will be available on each interest payment date to pay the interest due and payable under the Notes, or on the maturity date to pay the principal of the outstanding Notes.

If we are unable to comply with the restrictions and covenants in our debt agreements including the indentures governing the 2021 Notes and the Notes, there could be a default under the terms of these agreements, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in the indentures governing the 2021 Notes and the Notes, or our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the indentures governing the 2021 Notes and the Notes, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of debt, including the Notes, or result in a default under our other debt agreements, including the indenture governing the Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Notes which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.

The indenture governing the Notes includes a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

Certain transactions that constitute "connected transactions" under the Listing Rules will not be subject to the "Limitation on Transactions with Shareholders and Affiliates" covenant.

Our shares are listed on SEHK and we are required to comply with the Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries, on the one hand, and a "connected person" of such listed company, on the other hand, is a "connected transaction"; that, if the value of such transaction exceeds the applicable ratios, will require the prior approval of the independent shareholders of such listed company. The definition of "connected person" to a listed company includes, among others, any 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of "connected person" also captures "associates," which include, among others, (a) any subsidiary of such "connected person," (b) any holding company of such "connected person" and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

The "Limitation on Transactions with Shareholders and Affiliates" covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (x) any holder (or any Affiliate of such holder) of 5.0% or more of the shares of the Company or (y) any Affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they may be connected transactions under the Listing Rules and subject to any requirements under the Listing Rules to obtain approval from independent shareholders. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officer's certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

A trading market for the Notes may not develop, and there are restrictions on resales of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. The Company will seek a listing of the Notes on the SEHK. A confirmation of the eligibility of the listing of the Notes has been received from the SEHK. We do not intend to apply for listing of the Notes on any U.S. securities exchange or for quotation through an automated dealer quotation system. We have been advised that the Joint Lead Managers intend to make a market in the Notes, but they are not obligated to do so and may discontinue such market-making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. We cannot assure you that these developments will not occur in the future. In addition, a large portion of the Notes may be held by a limited number of investors. Such investors may not actively trade the Notes, which may result in limited liquidity of the Notes.

The holders of the Notes have no security interest in the Debt Service Account.

The funds in the Debt Service Account may only be used in accordance with the terms of the Indenture. The Issuer has undertaken to deposit in the Debt Service Account an amount not less than an amount equal to the Dollar Equivalent amount of one semi-annual interest payment under the Notes. However, the Company's commitment to fund the Debt Service Account does not constitute a security, pledge, charge, lien or any other form of encumbrance over the funds in the Debt Service Account in favor of the Trustee and the holders of the Notes. As a result, the holders of the Notes are unable to enforce, take possession or dispose of any security over the funds in the Debt Service Account to satisfy the Company's obligations under the Notes. In addition, in the event of an insolvency of the Company, the funds in the Debt Service Account may be subject to the insolvency claims of our third-party creditors. The Trustee's claim against the funds in the Debt Service Account will be an unsecured claim and may rank lower in priority to any claims by our secured third-party creditors.

Certain facts and statistics are derived from publications not independently verified by us, the Joint Lead Managers or our respective advisors.

Facts and statistics in this offering memorandum relating to China's economy and the industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Joint Lead Managers or our or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

We will follow the applicable corporate disclosure standards for debt securities listed on the SEHK, which standards may be different from those applicable to debt securities listed in certain other countries.

We will be subject to reporting obligations in respect of the Notes to be listed on the SEHK. The disclosure standards imposed by the SEHK may be different than those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

There may be less publicly available information about us than is available for public companies in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with IFRS, which differs in certain significant respects from U.S. GAAP and the generally accepted accounting principles of other jurisdictions.

The Notes will initially be held in book entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued as a global note and held through Euroclear and Clearstream. Interests in the Notes represented by the global note will trade in book entry form only, and notes in definitive registered form, or definitive registered notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book entry interests will not be considered owners or holders of the Notes. The nominee of the common depositary for Euroclear and Clearstream will be the sole registered holder of the global note representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global note representing the Notes will be made to the Paying Agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global note representing the Notes and credited by such participants to indirect participants. After payment to the nominee of the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book entry interests. Accordingly, if you own a book entry interest, you must rely on the procedures of Euroclear and Clearstream or, if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of Noteholder under the Indenture.

Unlike the holders of the Notes themselves, owners of book entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from Noteholders. Instead, if you own a book entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued in respect of all book entry interests, if you own a book entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees

Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees.

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries and their direct PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of the PRC or their future PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries. See the section entitled "Description of the Notes — The Subsidiary Guarantees" for a list of the Non-Guarantor Subsidiaries.

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors or JV Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so. See the section entitled "— Risks Relating to the Notes — We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries."

In addition, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to a third party of a minority interest in such subsidiary or its direct or indirect majority shareholders. Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company.

The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees.

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in the Cayman Islands, the British Virgin Islands, Hong Kong and other jurisdictions where future Subsidiary Guarantors or JV Subsidiary Guarantors (if any) may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of the incurrence of such guarantee;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital (in the case of a guarantor incorporated outside the British Virgin Islands only); or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the applicable jurisdiction. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its properties at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debts as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantor. In such a case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be) will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor or JV Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids a Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be), subordinates such guarantee to other indebtedness of the Subsidiary Guarantor or JV Subsidiary Guarantor, or holds the Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be) unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor or JV Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor or JV Subsidiary Guarantor (as the case may be), and would solely be creditors of us and any Subsidiary Guarantors or JV Subsidiary Guarantors whose guarantees have not been voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

USE OF PROCEEDS

The gross proceeds from the offering will be US$7,538,677.64. In addition, the Issuer will issue an additional aggregate principal amount of US$76,943,000 of Notes pursuant to the Exchange Offer.

We intend to use the net proceeds from this offering primarily for general working capital purposes.

We expect that the timing and final amount of disbursement to be made for the foregoing purposes will be determined by our Directors with a view to obtaining the optimal benefit for us. However, future events or developments, such as general market conditions, the level of demand for our products and the outlook for our industry, changes in social, political and economic conditions and the regulatory environment in the countries in which we conduct business and changes in our need for capital and the availability of financing and capital to fund these needs, may make a change in the use of the net proceeds from that specified above necessary or desirable.

EXCHANGE RATE INFORMATION

Hong Kong

The Hong Kong dollar is freely convertible into the U.S. dollar. Since 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "**Basic Law**"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the link at HK$7.80 to US$1.00 or at all.

The following table sets forth information concerning exchange rates between the Hong Kong dollars and the U.S. dollars as set forth in the H.10 weekly statistical release of the Federal Reserve Board.

	Noon Buying Rate			
Period	**Period End**	**Average[1]**	**High**	**Low**
		(HK$ Per US$1.00)		
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7622	7.8270	7.7528
2017	7.8128	7.7926	7.8267	7.7540
2018	7.8305	7.8376	7.8499	7.8043
2019	7.7894	7.8335	7.8499	7.7850
2020				
May	7.7513	7.7519	7.7561	7.7500
June	7.7501	7.7501	7.7514	7.7498
July	7.7500	7.7509	7.7538	7.7499
August	7.7501	7.7502	7.7506	7.7498
September	7.7500	7.7500	7.7504	7.7499
October	7.7548	7.7503	7.7548	7.7498
November (through November 13, 2020)	7.7532	7.7532	7.7552	7.7505

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

PRC

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration for Foreign Exchange and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. Since then and up to December 31, 2009, the Renminbi has appreciated approximately 21.3% against the U.S. dollar. After the introduction of the managed floating exchange rate system, the PRC government has made and may in the future make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day. On May 18, 2007, the PBOC enlarged, effective on May 21, 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC.

On June 19, 2010, the PBOC announced that in view of the recent economic situation and financial market developments in China and abroad, and the balance of payments situation in China, it has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility. According to the announcement, the exchange rate floating bands will remain the same as previously announced by the PBOC will place more emphasis to reflecting the market supply and demand with reference to a basket of currencies. On April 12, 2012, the PBOC announced that effective on April 16, 2012, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar is enlarged from 0.5% to 1.0% around the central parity rate, which allows the Renminbi to fluctuate against the U.S. dollar by up to 1.0% above or below the central parity rate published by the PBOC. On March 17, 2014, the PBOC announced that effective on the same day, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar would be further increased from 1.0% to 2.0% around the central parity rate, which allows the Renminbi to fluctuate against the U.S. dollar by up to 1.0% above or below the central parity rate published by the PBOC. On August 11, 2015, the PBOC made an announcement to set the daily fixing rate based on how the Renminbi closes in the previous trading session in a move to a more market-determined exchange rate. Since August 11, 2015, the Renminbi has depreciated by more than 7% against the U.S. dollar. The PRC government may make further adjustments to the exchange rate system in the future.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollars as set forth in the H.10 weekly statistical release of the Federal Reserve Board.

Period	Noon Buying Rate			
	Period End	**Average[1]**	**High**	**Low**
	(RMB Per US$1.00)			
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6266	6.9580	6.4738
2017	6.5063	6.7569	6.483	6.4773
2018	6.8755	6.6090	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020				
May	7.1348	7.1016	7.1681	7.0622
June	7.0651	7.0816	7.1263	7.0575
July	6.9744	7.0041	7.0703	6.9744
August	6.8474	6.9301	6.9799	6.8474
September	6.7896	6.8106	6.8474	6.7529
October	6.6919	6.7254	6.7898	6.6503
November (through November 13, 2020)	6.6039	6.6316	6.6899	6.6027

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

CAPITALIZATION

The table below shows our consolidated cash and cash equivalents, current and non-current debt and capitalization as of September 30, 2020, presented:

- on an actual basis; and
- as adjusted to reflect the issuance of the Notes and the 2021 Notes validly tendered for exchange pursuant to the Exchange Offer.

	As of September 30, 2020			
	Actual		As adjusted	
	RMB	*US$[1]*	*RMB*	*US$[1]*
	(in thousands)			
Cash and cash equivalents	1,352,627	199,220	1,379,355	203,157
Borrowings	4,167,961	613,874	4,167,961	613,874
2021 Notes[2]	691,269	101,813	191,827	28,253
Notes to be issued in this offering[3]	—	—	577,116	85,000
Total debt	**4,859,230**	**715,687**	**4,936,904**	**727,127**
Equity				
Share capital	40,594	5,979	40,594	5,979
Share premium	5,566,587	819,870	5,566,587	819,870
Treasury shares	(43,742)	(6,443)	(43,742)	(6,443)
Reserves	729,425	107,433	729,425	107,433
Accumulated losses	(4,146,597)	(610,728)	(4,146,597)	(610,728)
Non-controlling interests	3,018	445	3,018	445
Total equity	**2,149,285**	**316,556**	**2,149,285**	**316,556**
Total capitalization[4]	**7,008,515**	**1,032,243**	**7,086,189**	**1,043,683**

Except as otherwise disclosed above, there has been no other material change in our capitalization since September 30, 2020.

Notes:

(1) These amounts have been translated into U.S. dollars for convenience purposes at a rate of RMB6.7896 to U.S.$1.00, the noon buying rate as set forth in the H.10 weekly statistical release of the Federal Reserve Bank of New York on September 30, 2020.

(2) The aggregate principal amount of US$72,250,000 of the 2021 Notes were validly tendered and exchanged as part of the Exchange Offer.

(3) This balance represents (a) the aggregate principal amount of the Notes of US$8,057,000 purchased by the Initial Purchasers and (b) the aggregate principal amount of the Notes of US$76,943,000 issued as part of the Exchange Offer.

(4) Total capitalization represents the sum of "Total debt" and "Total equity".

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated statements of comprehensive income for the years ended 2017, 2018 and 2019 and selected consolidated statements of financial position data as of December 31, 2017, 2018 and 2019 (except for the non-IFRS measures) have been derived from our audited consolidated financial statements and related notes included elsewhere in this offering memorandum. The following selected consolidated statements of comprehensive income for the six months ended June 30, 2019 and 2020 and selected consolidated statements of financial position data as of June 30, 2020 and September 30, 2020 (except for the non-IFRS measures) have been derived from our unaudited condensed consolidated interim financial information and related notes included elsewhere in this offering memorandum. The unaudited consolidated financial information for the three months ended September 30, 2019 and 2020 presented in this offering memorandum has been derived from the unaudited condensed consolidated interim financial information for the nine months ended September 30, 2020 included elsewhere in this offering memorandum. Results from the six months ended June 30, 2020 and the three months ended September 30, 2020 are not indicative of results for the full year.

We have adopted IFRS 9 since January 1, 2018, pursuant to which, our Group is required to reclassify and adjust certain of its financial line items in its financial statements. Please refer to note 2.2 to our Group's audited consolidated financial statements for the year ended 31 December 2018 for a discussion on the impact of the adoption of IFRS 9. As the transitional provisions set out in IFRS 9 adopted by our Group do not require any restatement of the corresponding figures for the prior period before January 1, 2018. Also, certain figures in the consolidated financial information as of and for the year ended December 31, 2018 have been reclassified, or restated, to conform to the presentation for the year ended December 31, 2019. Please refer to the 2019 annual report for the figures as of and for the year ended December 31, 2018 and note 40 of the 2019 annual report. Therefore, the Group's consolidated financial information as of and for the years ended 2017 may not be directly comparable to our Group's consolidated financial information after January 1, 2018. Investors must therefore exercise caution when making comparisons of any financial figures after January 1, 2018 against our Group's consolidated financial figures prior to January 1, 2018 and when evaluating the Group's financial condition and results of operations.

We have adopted IFRS 16 since January 1, 2019, pursuant to which, our Group is required to recognise and measure certain of its financial line items in its financial statements. Please refer to note 2.2 to our Group's audited consolidated financial statements as of and for the year ended December 31, 2019. The recognition and measurement requirements of IFRS 16 are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. Therefore, our consolidated financial information as of and for the years ended 2017 and 2018 may not be directly comparable to our consolidated financial information after January 1, 2019. Investors must therefore exercise caution when making comparisons of any financial figures after January 1, 2019 against our Group's consolidated financial figures prior to January 1, 2019 and when evaluating the Group's financial condition and results of operations.

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

Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,						For the Six Months Ended June 30,				For the Three Months ended September 30,			
	2017		2018[3]		2019		2019		2020		2019		2020	
	RMB'000	*% (of total income)*	*RMB'000*	*% (of total income)*	*RMB'000*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*
Interest type income	N/A	N/A	2,930,339	107.1	2,642,081	68.4	1,152,633	62.0	1,310,586	108.9	665,493	64.6	406,007	55.9
Interest income	3,254,516	120.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Less: interest expenses	(918,226)	(33.9)	(974,770)	(35.6)	(862,174)	(22.3)	(395,939)	(21.3)	(446,484)	(37.1)	(219,777)	(21.3)	(152,099)	(20.9)
Net interest type income	N/A	N/A	1,955,569	71.5	1,779,907	46.1	756,694	40.7	864,102	71.8	445,716	43.3	253,908	35.0
Net interest income	2,336,290	86.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Loan facilitation service fees	83,916	3.1	269,832	9.8	1,247,377	32.3	572,865	30.8	238,173	19.8	540,694	52.5	249,336	34.3
Other income	286,176	10.6	511,182	18.7	837,073	21.6	530,660	28.5	101,551	8.4	43,292	4.2	223,358	30.7
Total income	**2,706,382**	**100.0**	**2,736,583**	**100.0**	**3,864,357**	**100.0**	**1,860,219**	**100.0**	**1,203,826**	**100.0**	**1,029,702**	**100.0**	**726,602**	**100.0**
Origination and servicing expenses	(607,614)	(22.5)	(865,581)	(31.6)	(709,509)	(18.4)	(301,884)	(16.2)	(370,340)	(30.8)	(231,909)	(22.5)	(232,991)	(32.1)
Sales and marketing expenses	(68,963)	(2.5)	(26,117)	(1.0)	(32,229)	(0.8)	(14,699)	(0.8)	(8,781)	(0.7)	(7,607)	(0.7)	(4,522)	(0.6)
General and administrative expenses	(181,747)	(6.7)	(502,369)	(18.4)	(505,424)	(13.1)	(281,016)	(15.1)	(153,200)	(12.7)	(122,984)	(11.9)	(64,651)	(8.9)
Research and development expenses	(74,379)	(2.7)	(74,058)	(2.7)	(92,392)	(2.4)	(38,922)	(2.1)	(36,900)	(3.1)	(24,606)	(2.4)	(16,089)	(2.2)
Impairment losses/Credit impairment losses	(1,417,439)	(52.4)	(54,348)	(2.0)	(309,101)	(8.0)	(124,161)	(6.7)	(165,008)	(13.7)	(129,037)	(12.5)	(53,871)	(7.4)
Fair value change of loans to customers	N/A	N/A	(1,130,058)	(41.3)	(2,058,482)	(53.3)	(1,040,106)	(55.9)	(1,800,107)	(149.5)	(416,864)	(40.5)	(251,607)	(34.6)
Other (losses)/gains, net	(8,840)	(0.4)	17,583	0.6	(2,851)	(0.1)	(2,068)	(0.1)	(8,553)	(0.7)	(16,308)	(1.6)	24,762	3.4
Operating profit/(loss)	**347,400**	**12.8**	**101,635**	**3.6**	**154,369**	**3.9**	**57,363**	**3.1**	**(1,339,063)**	**(111.2)**	**80,387**	**7.9**	**127,633**	**17.6**
Share of net (loss)/profit of associates accounted for using the equity method	(6,368)	(0.2)	(2,900)	(0.1)	9,962	0.3	992	0.1	(11,235)	0.9	445	0.0	104	0.0
Fair value loss of Preferred Shares	(1,285,496)	(47.5)	(1,047,156)	(38.3)	—	—	—	—	—	—	—	—	—	—
(Loss)/Profit before income tax	**(944,464)**	**(34.9)**	**(948,421)**	**(34.8)**	**164,331**	**4.2**	**58,355**	**3.2**	**(1,350,298)**	**(112.1)**	**80,832**	**7.9**	**127,737**	**17.6**
Income tax (expense)/credit	(58,669)	(2.2)	(78,532)	(2.9)	(99,541)	(2.6)	(52,181)	(2.8)	269,070	22.4	(34,822)	(3.4)	(37,298)	(5.1)
(Loss)/Profit for the year/period[1]	**(1,003,133)**	**(37.1)**	**(1,026,953)**	**(37.7)**	**64,790**	**1.6**	**6,174**	**0.4**	**(1,081,228)**	**(89.7)**	**46,010**	**4.5**	**90,439**	**12.5**
Non-IFRS Measure														
Adjusted net profit/(loss) (unaudited)[2]	292,489	10.8	295,813	10.8	368,208	9.5	192,780	10.4	(1,042,048)	(86.6)	104,584	10.2	109,651	15.1

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 profit/(loss) as profit/(loss) for the year/period excluding our fair value loss of Preferred Shares and our share-based compensation expenses. Adjusted net profit/(loss) is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net profit/(loss) 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."

(3) Certain figures in the consolidated statement of comprehensive income for the year ended December 31, 2018 have been reclassified, or restated, to conform to the presentation for the year ended December 31, 2019. Please refer to the 2019 annual report for the figures for the year ended December 31, 2018.

Consolidated Statements of Financial Position

	As of December 31,			As of June 30,	As of September 30,
	2017	2018[(2)]	2019	2020	2020
		RMB'000		*(unaudited)*	*(unaudited)*
Assets					
Cash and cash equivalents	568,196	1,050,111	2,169,522	1,813,986	1,352,627
Restricted cash	143,570	127,902	264,584	248,248	238,313
Loans to customers at amortized cost	11,479,696	—	—	—	—
Loans to customers at fair value through profit or loss	N/A	8,863,246	9,457,673	5,338,308	4,168,741
Contract assets	98,845	154,143	523,022	221,727	296,242
Guarantee receivables	130,073	206,146	621,248	616,392	702,020
Financial assets at fair value through profit or loss	110,545	—	280	20,282	20,284
Investments accounted for using the equity method	30,784	27,684	37,430	20,462	20,566
Deferred income tax assets	279,860	413,117	468,256	740,352	783,424
Intangible assets	13,488	16,814	22,175	24,625	30,990
Property and equipment	74,355	59,066	51,196	41,433	37,045
Right-of-use assets	N/A	N/A	25,824	58,818	52,183
Other assets	507,596	759,446	648,147	473,795	524,185
Total assets	**13,437,008**	**11,677,675**	**14,289,357**	**9,618,428**	**8,226,620**
Liabilities					
Borrowings	11,063,133	8,170,224	9,236,329	5,525,792	4,167,961
Senior notes	—	—	678,829	695,475	691,269
Lease liabilities	N/A	N/A	25,197	59,504	53,074
Guarantee liabilities	169,553	204,496	723,617	688,393	678,917
Tax payable	108,338	85,400	124,960	255,550	96,676
Deferred income tax liabilities	122,314	77,734	86,101	20,593	69,218
Preferred Shares	3,042,173	—	—	—	—
Other liabilities	440,107	355,094	314,046	313,185	320,220
Total liabilities	**14,945,618**	**8,892,948**	**11,189,079**	**7,558,492**	**6,077,335**
(Deficit)/Equity					
Share capital	394,462	40,938	40,913	40,857	40,594
Share premium	—	5,581,926	5,581,016	5,578,217	5,566,587
Treasury shares	—	—	(51,774)	(38,999)	(43,742)
Reserves	60,951	380,455	682,913	713,879	729,425
Accumulated deficits	(1,964,023)	(3,218,592)	(3,155,790)	(4,237,030)	(4,146,597)
Non-controlling interests	—	—	3,000	3,012	3,018
Total (deficit)/equity[(1)]	**(1,508,610)**	**2,784,727**	**3,100,278**	**2,059,936**	**2,149,285**
Total liabilities and equity	**13,437,008**	**11,677,675**	**14,289,357**	**9,618,428**	**8,226,620**
Non-IFRS Measure					
Adjusted total equity (unaudited)[(1)]	1,533,563	2,784,727	3,100,278	2,059,936	2,149,285

Notes:

(1) 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."

(2) Certain figures in the consolidated statements of financial position as of December 31, 2018 have been reclassified, or restated, to conform to the presentation as of December 31, 2019. Please refer to the 2019 annual report for the figures as of December 31, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with "Selected Consolidated Financial Information" and our consolidated financial statements and related notes included elsewhere in this offering memorandum. Our financial information has been prepared and presented in accordance with IFRS, which differs in certain material respects from U.S. GAAP.

For the purpose of this section, unless the context otherwise requires, references to 2017, 2018 and 2019 refer to our financial years ended 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. 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, to a lesser extent, we directly lend to borrowers. For the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we originated RMB24.5 billion, RMB20.8 billion, RMB33.7 billion, RMB13.3 billion and RMB8.7 billion of loans, respectively.

We primarily offer two lines of credit products: credit card balance transfer products and consumption credit products, both 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. During the years ended 2017 and 2018, we also provided online-to-offline credit products. On October 10, 2018, we entered into an agreement to dispose of the subsidiary that operates our online-to-offline business platform and the disposal was completed on December 31, 2018. Following the disposal, we no longer operate the online-to-offline business platform.

Our total income was RMB2.7 billion, RMB2.7 billion, RMB3.9 billion, RMB1.2 billion and RMB0.7 billion for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively. We recorded operating profit of RMB347.4 million, RMB101.6 million, RMB154.4 million for the years ended 2017, 2018 and 2019, respectively, operating loss of RMB1.3 billion for the six months ended June 30, 2020 and operating profit of RMB0.1 billion for the three months ended September 30, 2020. We recorded net loss of RMB1.0 billion, net loss of RMB1.0 billion, net profit of RMB64.8 million, net loss of RMB1.1 billion and net profit of RMB90.4 million for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively. Excluding the impact of fair value loss of our Preferred Shares and our share-based compensation expenses, we had adjusted net profit of RMB292.5 million, adjusted net profit of RMB295.8 million, adjusted net profit of RMB368.2 million, adjusted net loss of RMB1.0 billion and adjusted net profit of RMB109.7 million for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively. For further details of our adjusted net (loss)/profit, see "— Consolidated Income Statement" and "— Non-IFRS Measures."

BASIS OF PRESENTATION

Our Company was incorporated as "Vision Capital Group Limited" in the BVI in July 2007. 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.

In preparing and presenting the financial information for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we have consistently applied IFRS that were effective for the accounting period beginning on January 1, 2015. We have early adopted IFRS 15 and applied it from January 1, 2015, 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 year ended 2017, including IFRS 9. IFRS 9 became 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. We have adopted IFRS 9 for the year ended 2018. 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 financial information for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020 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. Our 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 Chinese consumer demand for credit, which in turn depends on China's economic growth. 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. 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. 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 separates 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's outstanding guarantee liabilities cannot exceed 10 times of its net assets. Our trust lending and credit-enhanced loan facilitation structures constituted 91.3%, 84.3%, 93.6%, 98.4% and 99.6% of our total loan origination volume in the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020 respectively. We have strengthened, and as appropriate, will strengthen the capital base of our financing guarantee company to support these two funding structures by capital injection.

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 years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, 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 years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we obtained funds from various sources to support our business growth, primarily including (i) issuance of Preferred Shares, (ii) issuance of the 2021 Notes, (iii) bank loans, and (iv) 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 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our funding partners funded or structured approximately 94.9%, 93.8%, 99.1%, 99.5% and 99.6%, respectively, of the amount of loans we originated. 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 September 30, 2020, we had collaboration relationships with 53 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 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 the 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 69.3%, 60.6%, 59.8%, 59.5% and 57.6%, respectively, in the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020. 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 years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, one of our major PRC subsidiaries, VC Financial Technology, 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 has enjoyed 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 our financial statements 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 the notes to our financial statements included elsewhere in this offering memorandum. We have applied these significant accounting policies consistently throughout the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020.

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 years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020. We do not expect any material changes in these estimates and assumptions in the foreseeable future. Our critical accounting estimates and judgments that were used in the preparation of our financial statements are set forth in the notes to our financial statements included elsewhere in this offering memorandum.

We have identified below the accounting policies, estimates and judgments that we believe are critical to the preparation of our financial statements.

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 customer;
- 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.

(a) Interest income of loans to customers — IAS 39

We have originated and hold 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 do 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.

(b) Interest type income — IFRS 9

The adoption of IFRS 9 has resulted in the reclassification of the loans to customers to fair value through profit or loss ("**FVPL**"). Accordingly, the interest income recognized for the loans to customers under IAS 39 will be no longer applicable under IFRS 9. We use nominal interest rate to calculate total income for each loan and recognize the income based on similar effective interest method as interest type income. The transaction costs are not added to or deducted from the initial fair value, but are immediately recognized in profit or loss on initial recognition.

(c) Non-interest income

Loan facilitation service fees and gains from guarantees

In some arrangements where we are the loan originator, we also generate non-interest service fees by facilitating transactions between borrowers and financial institutions. Here, we determine 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:

(i) Upfront loan facilitation services: matching potential qualified borrowers to institutional investors and facilitating the execution of loan agreements between the parties;

(ii) Post loan facilitation services: providing repayment processing services for the institutional investors over the loan term, including following up on late repayments; and

(iii) Guarantee service provided to financial institutions, if applicable.

We receive upfront payments from borrowers at loan inception (if applicable) and subsequent payments over the term of the loan. The total service fees are first allocated to the guarantee liabilities at fair value that meet the definition of a financial guarantee under IFRS 9. The remaining amount is then allocated to upfront loan facilitation services and post loan facilitation services using best estimated selling price, as neither vendor specific objective evidence nor third party evidence of selling prices are available.

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

Penalty charges

Penalty charges are the additional charges upon default of borrowers. Penalty charges are recognized as other income when incurred on a case-by-case basis. The collectability of these amounts is often highly uncertain. Penalty charges are only highly probable to be collected when the actual overdue amounts are repaid and are recognized as revenue when the cash of the penalty payments is actually collected.

User membership fees

User membership provides registered users on the platform with credit report analysis service, discount vouchers for marketplace business partners, and other exclusive rights. Membership prices are determined by us according to various service packages, membership term and price sensitivities of different borrowers. Each service in the membership program is treated as an individual obligation and is allocated with a standalone transaction price. User membership fees are collected at inception and are recognized as other income when certain obligations are satisfied.

Referral fees

We receive fees upon the successful referral of customers to certain third party service providers. We are generally not the primary obligator nor have the ability to establish the price. We are not exposed to the credit risk when directing borrowers to third-party service providers. Upon the third-party service provider's confirmation of a successful payment of service fees, we will charge the third-party service provider a fixed rate referral service fee based on the transaction amount and recognize the amount in other income on a net basis. The third-party service provider will settle the payments periodically.

Risk management system service fees

We help certain business partners to build or upgrade their own risk management system based on our robust risk management capability. We recognize risk management system service fees in other income when certain obligations agreed in service contracts are satisfied.

Other consulting service fees

We provide consulting services to certain business partner and charge consulting service fees based on employees' actual working hours occupied and charge rates agreed in consulting service contracts. We recognize other consulting service fees on accrual basis according to employees' consulting hours recorded in our system. Business partners will settle the payments periodically.

Financial Assets — IAS 39

For the year ended December 31, 2017, we have adopted and applied IAS 39.

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 categories are: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, and (iii) available-for-sale financial assets.

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 incremental and 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 or 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. Costs of obtaining a contract that are not incremental are expensed as incurred.

Impairment of Financial Assets — IAS 39

(a) 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.

(b) Impairment of Available-for-sale Financial Assets

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or prolonged, we consider if the fair value of an available-for-sale equity instrument as of the reporting date is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognized directly in other comprehensive income is reclassified to profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognized as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognized in profit or loss.

Guarantee Liabilities and Receivables

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of (i) the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments, and (ii) the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15 Revenue from Contracts with Customers. The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Guarantee premium is collected from borrowers on a monthly basis according to guarantee contracts. The guarantee receivables are recognized at loan inception based on future contractual cash-in, which is the same amount as guarantee liability recognized initially. At each reporting date, we assess whether there is any indicator of impairment to any individual underlying loans of the guarantee receivables and credit impairment loss is recognized using the expected credit loss model.

Preferred Shares

We designated the Preferred Shares as financial liabilities at fair value through profit or loss. They were 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 were carried at fair value with changes in fair value recognized in the profit or loss. The Preferred Shares were automatically converted into our ordinary shares upon the listing of our ordinary shares on the SEHK in June 2018.

Application of IFRS 9

For the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively, we have adopted and applied IFRS 9.

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 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.

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.

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 available-for-sale financial assets 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 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 credit loss model applies to financial guarantee contracts that are not measured at fair value through profit or loss.

Credit loss methodology

The application of credit loss has changed 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 are 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 incurred loss model adopted for the year ended December 31, 2017 under IAS 39 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 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 of the reporting date, with the risk of a default occurring on the financial instrument as of 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 requirements under IAS 39 for impaired financial instruments.

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

Transitional impact

The requirements of IFRS 9 were adopted from January 1, 2018 and applied to our financial statements for the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September, 30, 2020. 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 have elected to not restate the figures for the comparative periods prior to the years ended 2018.

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 RMB11.5 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 amount paid upon prepayment does not substantially represent unpaid amounts of principal and interests on the principal amount outstanding, according to the early repayment clause in the loan contracts.

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 for the year ended 2018 and subsequent financial years are addressed below.

Measurement of the ECL allowance

The measurement of the ECL allowance for financial assets measured at amortized cost and financial guarantee contracts is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (*e.g.*, the likelihood of customers defaulting and the resulting losses). A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

(i) Determining criteria for significant increase in credit risk;

- A financial instrument is considered to have experienced a significant increase in credit risk if the borrower is 30 days past due on its contractual payments.

- Using other warning lists as supplemental criteria such as fraudulent list.

(ii) Choosing appropriate models and assumptions for the measurement of ECL;

- The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability for Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), or ECL=PD*LGD*EAD*discounted rate.

- The calculation of PD and LGD started with our historical information. PD and LGD are calculated by type of products, internal risk grades and loan durations as appropriate.

- EAD is calculated based on the amounts we expect to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

- The discounted rate (DF) used in the ECL calculation is the original effective interest rate or an approximation thereof.

(iii) Establishing the number and relative weighting of forward-looking scenarios for each type of product/market and the associated ECL;

- We used the Morten Model to estimate the relationship between ECL and forward-looking scenarios.

- Based on economic statistics, three different prospective scenarios, namely the "base", the "upside" and the "downside" are used with 80%, 10% and 10% weighting respectively.

- We perform historical analysis and identify the key economic variables impacting credit risk and ECL of each portfolio. The most significant assumption used is CPI, given the impact it has on the loans provided by us.

Fair Value of Loans to customers

Fair value of loans to customers represent management's best estimate of discounted cash flow of the loan portfolios at the reporting date. Management is required to exercise judgement in making assumptions and estimates when calculating fair value of loans to customers. 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 each loan before the decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of a borrower (*e.g.* payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics similar to each loan. The methodology and assumptions used for estimating the amount and timing of future cash flows, the historical loss experience and the relevant observable data are reviewed regularly to reduce any differences between fair value change of loans to customers and actual loss experience.

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 judgement in making assumptions and estimates when calculating loan impairment allowances. We make judgements 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 and share awards 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 and share awards as of 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 and share awards 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 share awards 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 and share awards 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

Prior to their conversion into ordinary shares at the time of our listing on the SEHK in June 2018, the Preferred Shares issued by us were not traded in an active market and the respective fair value was determined by using valuation techniques.

We used the discounted cash flow method to determine our underlying equity fair value and adopted the equity allocation method to determine the fair value of the Preferred Shares as of each date of issuance and at each applicable reporting date. The valuation technique used to measure fair value was applied consistently. Revisions resulting from a change in the valuation technique or its application were accounted for as a change in accounting estimate.

NON-IFRS MEASURES

To supplement our financial statements, which are presented in accordance with IFRS, we also use adjusted net profit/(loss), adjusted operating profit/(loss) 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 profit/(loss), adjusted operating profit/(loss) 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 profit/(loss) eliminates the effect of fair value loss of the Preferred Shares and our share-based compensation expenses.

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
(Loss)/Profit for the years/periods	(1,003,133)	(1,026,953)	64,790	6,174	(1,081,228)	46,010	90,439
Add:							
Fair value loss of Preferred Shares	1,285,496	1,047,156	—	—	—	—	—
Share-based compensation expenses	10,126	275,610	303,418	186,606	39,180	58,574	19,212
Non-IFRS Measure							
Adjusted net profit/(loss) (unaudited)	**292,489**	**295,813**	**368,208**	**192,780**	**(1,042,048)**	**104,584**	**109,651**

Adjusted operating profit/(loss) is calculated by adding the share-based compensation expenses and listing expenses to the operating (loss)/profit.

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Operating profit/(loss)	347,400	101,635	154,369	57,363	(1,339,063)	80,387	127,633
Add:							
Share-based compensation expenses	10,126	275,610	303,418	186,606	39,180	58,574	19,212
Listing expenses	6,869	49,870	—	—	—	—	—
Non-IFRS Measure							
Adjusted operating profit/(loss) (unaudited)	**364,395**	**427,115**	**457,787**	**243,969**	**(1,299,883)**	**138,961**	**146,845**

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)/equity.

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
			RMB'000		
				(unaudited)	*(unaudited)*
Total (deficit)/equity	(1,508,610)	2,784,727	3,100,278	2,059,936	2,149,285
Add:					
Preferred Shares	3,042,173	—	—	—	—
Non-IFRS Measure					
Adjusted total equity (unaudited)	**1,533,563**	**2,784,727**	**3,100,278**	**2,059,936**	**2,149,285**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Year Ended December 31,						For the Six Months Ended June 30,				For the Three Months ended September 30,			
	2017		2018[3]		2019		2019		2020		2019		2020	
	RMB'000	*% (of total income)*	*RMB'000*	*% (of total income)*	*RMB'000*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*	*RMB'000 (unaudited)*	*% (of total income)*
Interest type income	N/A	N/A	2,930,339	107.1	2,642,081	68.4	1,152,633	62.0	1,310,586	108.9	665,493	64.6	406,007	55.9
Interest income	3,254,516	120.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Less: interest expenses	(918,226)	(33.9)	(974,770)	(35.6)	(862,174)	(22.3)	(395,939)	(21.3)	(446,484)	(37.1)	(219,777)	(21.3)	(152,099)	(20.9)
Net interest type income	N/A	N/A	1,955,569	71.5	1,779,907	46.1	756,694	40.7	864,102	71.8	445,716	43.3	253,908	35.0
Net interest income	2,336,290	86.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Loan facilitation service fees	83,916	3.1	269,832	9.8	1,247,377	32.3	572,865	30.8	238,173	19.8	540,694	52.5	249,336	34.3
Other income	286,176	10.6	511,182	18.7	837,073	21.6	530,660	28.5	101,551	8.4	43,292	4.2	223,358	30.7
Total income	**2,706,382**	**100.0**	**2,736,583**	**100.0**	**3,864,357**	**100.0**	**1,860,219**	**100.0**	**1,203,826**	**100.0**	**1,029,702**	**100.0**	**726,602**	**100.0**
Origination and servicing expenses	(607,614)	(22.5)	(865,581)	(31.6)	(709,509)	(18.4)	(301,884)	(16.2)	(370,340)	(30.8)	(231,909)	(22.5)	(232,991)	(32.1)
Sales and marketing expenses	(68,963)	(2.5)	(26,117)	(1.0)	(32,229)	(0.8)	(14,699)	(0.8)	(8,781)	(0.7)	(7,607)	(0.7)	(4,522)	(0.6)
General and administrative expenses	(181,747)	(6.7)	(502,369)	(18.4)	(505,424)	(13.1)	(281,016)	(15.1)	(153,200)	(12.7)	(122,984)	(11.9)	(64,651)	(8.9)
Research and development expenses	(74,379)	(2.7)	(74,058)	(2.7)	(92,392)	(2.4)	(38,922)	(2.1)	(36,900)	(3.1)	(24,606)	(2.4)	(16,089)	(2.2)
Impairment losses/Credit impairment losses	(1,417,439)	(52.4)	(54,348)	(2.0)	(309,101)	(8.0)	(124,161)	(6.7)	(165,008)	(13.7)	(129,037)	(12.5)	(53,871)	(7.4)
Fair value change of loans to customers	N/A	N/A	(1,130,058)	(41.3)	(2,058,482)	(53.3)	(1,040,106)	(55.9)	(1,800,107)	(149.5)	(416,864)	(40.5)	(251,607)	(34.6)
Other (losses)/gains, net	(8,840)	(0.4)	17,583	0.6	(2,851)	(0.1)	(2,068)	(0.1)	(8,553)	(0.7)	(16,308)	(1.6)	24,762	3.4
Operating profit/(loss)	**347,400**	**12.8**	**101,635**	**3.6**	**154,369**	**3.9**	**57,363**	**3.1**	**(1,339,063)**	**(111.2)**	**80,387**	**7.9**	**127,633**	**17.6**
Share of net (loss)/profit of associates accounted for using the equity method	(6,368)	(0.2)	(2,900)	(0.1)	9,962	0.3	992	0.1	(11,235)	0.9	445	0.0	104	0.0
Fair value loss of Preferred Shares	(1,285,496)	(47.5)	(1,047,156)	(38.3)	—	—	—	—	—	—	—	—	—	—
(Loss)/Profit before income tax	**(944,464)**	**(34.9)**	**(948,421)**	**(34.8)**	**164,331**	**4.2**	**58,355**	**3.2**	**(1,350,298)**	**(112.1)**	**80,832**	**7.9**	**127,737**	**17.6**
Income tax (expense)/credit	(58,669)	(2.2)	(78,532)	(2.9)	(99,541)	(2.6)	(52,181)	(2.8)	269,070	22.4	(34,822)	(3.4)	(37,298)	(5.1)
(Loss)/Profit for the year/period[1]	**(1,003,133)**	**(37.1)**	**(1,026,953)**	**(37.7)**	**64,790**	**1.6**	**6,174**	**0.4**	**(1,081,228)**	**(89.7)**	**46,010**	**4.5**	**90,439**	**12.5**
Non-IFRS Measure														
Adjusted net profit/(loss) (unaudited)[2]	292,489	10.8	295,813	10.8	368,208	9.5	192,780	10.4	(1,042,048)	(86.6)	104,584	10.2	109,651	15.1

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 profit/(loss) as profit/(loss) for the year/period excluding our fair value loss of Preferred Shares and our share-based compensation expenses. Adjusted net profit/(loss) is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net profit/(loss) 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."

(3) Certain figures in the consolidated statement of comprehensive income for the year ended December 31, 2018 have been reclassified, or restated, to conform to the presentation for the year ended December 31, 2019. Please refer to the 2019 annual report for the figures for the year ended December 31, 2018.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Total income

During the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we derived total income through (i) net interest income/net interest type income, (ii) loan facilitation service fees, and (iii) other income. We offer two lines of credit products: credit card balance transfer products and consumption credit products. Prior to December 31, 2018, we also offered online-to-offline credit products. On October 10, 2018, we entered into an agreement to dispose of the subsidiary that operates our online-to-offline business platform and the disposal was completed on December 31, 2018. Following the disposal, we no longer operate the online-to-offline business platform. We fund our credit products through four structures: direct lending, trust lending, credit-enhanced loan facilitation, and pure loan facilitation. For the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we generated total income of RMB2.7 billion, RMB2.7 billion, RMB3.9 billion, RMB1.2 billion and RMB0.7 billion, respectively.

Net interest income/Net interest type income

Our net interest income/net interest type income is comprised of (i) interest income/interest type income and (ii) interest expenses. For the year ended 2017, our net interest income was RMB2.3 billion. As a result of the adoption of IFRS 9 with effect from January 1, 2018, we have reclassified net interest income to net interest type income and recognized RMB2.0 billion, RMB1.8 billion, RMB864.1 million and RMB253.9 million in net interest type income for the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020.

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Net interest income/Net interest type income							
Interest type income	N/A	2,930,339	2,642,081	1,152,633	1,310,586	665,493	406,007
Interest income	3,254,516	N/A	N/A	N/A	N/A	N/A	N/A
Less: Interest expenses	(918,226)	(974,770)	(862,174)	(395,939)	(446,484)	(219,777)	(152,099)
Total	**2,336,290**	**1,955,569**	**1,779,907**	**756,694**	**864,102**	**445,716**	**253,908**

Interest income/Interest type income

During the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we generated interest income/interest type income primarily from (i) credit card balance transfer products, (ii) consumption credit products, and (iii) online-to-offline credit products. For the years ended 2017, our interest income was RMB3.3 billion. For the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our interest type income was RMB2.9 billion, RMB2.6 billion, RMB1.3 billion and RMB0.4 billion. On October 10, 2018, we entered into an agreement to dispose of the subsidiary that operates our online-to-offline business platform. The disposal was completed on December 31, 2018. Following the disposal, we no longer operate the online-to-offline business platform.

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

	For the Year Ended December 31,						For the Six Months Ended June 30,				For the Three Months Ended September 30,			
	2017		2018		2019		2019		2020		2019		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000* *(unaudited)*	*%*
Interest income/Interest type income														
Credit card balance transfer products	1,012,398	31.1	1,119,175	38.2	773,222	29.3	387,034	33.6	325,215	24.8	171,815	25.8	96,787	23.8
Consumption credit products	814,992	25.0	731,735	25.0	1,392,506	52.7	443,774	38.5	937,022	71.5	402,403	60.5	302,985	74.7
Online-to-offline credit products	1,427,126	43.9	1,079,429	36.8	476,353	18.0	321,825	27.9	48,349	3.7	91,275	13.7	6,235	1.5
Total	**3,254,516**	**100.0**	**2,930,339**	**100.0**	**2,642,081**	**100.0**	**1,152,633**	**100.0**	**1,310,586**	**100.0**	**665,493**	**100.0**	**406,007**	**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 RMB918.2 million in 2017 to RMB974.8 million in 2018, decreased to RMB862.2 million, and further decreased to RMB446.5 million and to RMB152.1 million in 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020. Specifically, for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our interest expenses in connection with our payments to the trust investors under our trust lending structure were RMB814.0 million, RMB817.8 million, RMB728.4 million, RMB368.0 million and RMB111.2 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 the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our loan facilitation service fees were RMB83.9 million, RMB269.8 million, RMB1.3 billion, RMB238.2 million and RMB249.3 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 years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020.

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Credit-enhanced loan facilitation	50,713	214,273	1,147,150	516,834	228,214	512,439	249,209
Pure loan facilitation	33,203	55,559	100,227	56,031	9,959	28,255	127
Loan facilitation service fees	**83,916**	**269,832**	**1,247,377**	**572,865**	**238,173**	**540,694**	**249,336**

We receive upfront payments at loan inception (if applicable) 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 years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020.

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Upfront loan facilitation service fees	69,102	230,560	1,119,343	534,996	159,983	494,227	225,599
Post facilitation service fees	14,814	39,272	128,034	37,869	78,190	46,467	23,737
Loan facilitation service fees	**83,916**	**269,832**	**1,247,377**	**572,865**	**238,173**	**540,694**	**249,336**

Other income

We generate other income primarily from (i) overdue charges with respect to loans to customers originated by us, (ii) gains/losses from guarantees with respect to loan guarantees provided by us in connection with the credit-enhanced loan facilitation structure, (iii) membership fees from customers in relation to credit assessment, daily account maintenance of account and loan origination services and (iv) risk management system service fees with respect to our value-added services based on our *Hummingbird* system that we began offering in 2017. For the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our other income was RMB286.2 million, RMB511.2 million, RMB837.1 million, RMB101.6 million and RMB223.4 million, respectively.

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Membership fees and referral fees	—	351,653	794,581	500,525	301,047	171,625	381
Penalty and service charges	248,068	240,832	327,228	125,094	183,419	99,197	58,776
Government grants	—	—	—	—	34,975	—	—
Technology and professional service fee	—	—	—	16,212	—	8,037	—
Gains/(losses) from guarantee	9,211	(160,436)	(318,381)	(116,192)	(421,526)	(235,220)	162,985
Others	28,897	79,133	33,645	5,021	3,636	(347)	1,216
Other income	**286,176**	**511,182**	**837,073**	**530,660**	**101,551**	**43,292**	**223,358**

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,						For the Six Months Ended June 30,				For the Three Months Ended September 30,			
	2017		2018		2019		2019		2020		2019		2020	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)		*(unaudited)*		*(unaudited)*		*(unaudited)*	
Origination and servicing expenses	607,614	65.1	865,581	59.0	709,509	53.0	301,884	47.4	370,340	65.1	231,909	59.9	232,991	73.2
Sales and marketing expenses	68,963	7.4	26,117	1.8	32,229	2.4	14,699	2.3	8,781	1.5	7,607	2.0	4,522	1.4
General and administrative expenses	181,747	19.5	502,369	34.2	505,424	37.7	281,016	44.2	153,200	26.9	122,984	31.8	64,651	20.3
Research and development expenses	74,379	8.0	74,058	5.0	92,392	6.9	38,922	6.1	36,900	6.5	24,606	6.3	16,089	5.1
Total expenses	**932,703**	**100.0**	**1,468,125**	**100.0**	**1,339,554**	**100.0**	**636,521**	**100.0**	**569,221**	**100.0**	**387,106**	**100.0**	**318,253**	**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,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Employee benefit expenses	301,794	206,920	59,515	32,476	20,116	14,551	10,233
Loan origination and servicing expenses	217,185	580,377	593,525	252,972	316,551	197,588	202,486
Office rental	34,386	30,442	—	—	—	—	—
Depreciation and amortization	12,785	9,893	16,005	3,259	2,696	1,425	1,264
Other expenses	41,464	37,949	40,464	13,177	30,977	18,345	19,008
Total	**607,614**	**865,581**	**709,509**	**301,884**	**370,340**	**231,909**	**232,991**

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, for 2017 and 2018, offline outlets. For the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our origination and servicing expenses were RMB607.6 million, RMB865.6 million, RMB709.5 million, RMB370.3 million and RMB233.0 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,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Marketing and advertising fees	55,326	—	—	—	—	—	—
Branding expenses	—	16,242	6,066	4,980	2,773	29	1,562
Employee benefit expenses	9,231	5,691	11,082	5,359	4,806	3,070	2,247
Depreciation and amortization	308	96	1,502	35	41	17	19
Other expenses	4,098	4,088	13,579	4,325	1,161	4,491	694
Total	**68,963**	**26,117**	**32,229**	**14,699**	**8,781**	**7,607**	**4,522**

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 the years ended 2017, 2018 and 2019, the six months ended June

30, 2020 and the three months ended September 30, 2020, our sales and marketing expenses were RMB69.0 million, RMB26.1 million, RMB32.2 million, RMB8.8 million and RMB4.5 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,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Employee benefit expenses	107,509	342,175	368,778	217,681	71,949	75,410	27,306
Tax and surcharge	12,343	12,827	22,619	8,881	15,350	6,333	5,278
Professional service fees	24,843	28,920	45,761	13,065	12,736	20,393	8,050
Listing expenses	6,869	49,870	—	—	—	—	—
Office rental	14,062	18,320	—	—	—	—	—
Depreciation and amortization	7,749	18,989	40,348	29,169	29,903	13,091	12,846
Other expenses	8,372	31,268	27,918	12,220	23,262	7,757	11,171
Total	**181,747**	**502,369**	**505,424**	**281,016**	**153,200**	**122,984**	**64,651**

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 the Preferred Shares and legal collection actions, (iv) listing expenses primarily in connection with our initial public offering and listing on the SEHK and (v) office rental and expenses of our headquarters in respect of our administrative function. For the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our general and administrative expenses were RMB181.7 million, RMB502.4 million, RMB505.4 million, RMB153.2 million and RMB64.6 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,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Employee benefit expenses	55,242	60,959	81,184	36,063	35,895	23,633	14,084
Office rental	8,656	6,869	—	—	—	—	—
Professional service fees	1,719	2,805	3,120	1,290	283	105	608
Depreciation and amortization	3,493	2,452	7,358	1,191	647	746	319
Other expenses	5,269	973	730	378	75	122	1,078
Total	**74,379**	**74,058**	**92,392**	**38,922**	**36,900**	**24,606**	**16,089**

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 the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our research and development expenses were RMB74.4 million, RMB74.1 million, RMB92.4 million, RMB36.9 million and RMB16.1 million, respectively.

Impairment losses/Credit impairment losses

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Cash and cash equivalents	—	(3)	1	—	66	13	72
Restricted cash	—	(1)	34	33	102	7	(7)
Loans to customers at amortized cost	1,397,199	—	—	—	—	—	—
Contract assets	11,872	17,293	146,069	64,392	53,853	71,046	16,282
Guarantee receivables	3,562	35,998	165,586	62,364	108,579	58,566	36,976
Other assets	4,806	1,061	(2,589)	(2,628)	2,408	(595)	548
Total	**1,417,439**	**54,348**	**309,101**	**124,161**	**165,008**	**129,037**	**53,871**

Our impairment losses/credit impairment losses are primarily comprised of losses from impairment of loans to customers originated by us through trust lending, direct lending and credit-enhanced loan facilitation structures. For the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our impairment losses/credit impairment losses were RMB1.4 billion, RMB54.3 million, RMB309.1 million, RMB165.0 mllion and RMB53.9 million, respectively. As a result of the adoption of IFRS 9, loans to customers at amortized cost have been reclassified as loans to customers at fair value through profit or loss from January 1, 2018.

Fair value change of loans to customers

Following the adoption of IFRS 9 in 2018, we measure assets that do not meet the criteria for amortized cost or fair value through comprehensive income at fair value through profit or loss. As a result, we measured our gains and losses on our loans to customers at fair value through profit or loss and recognized a fair value change of loans to customers of RMB1,130.1 million, RMB2,058.5 million, RMB1,800.1 million and RMB251.6 million in the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively.

Other (losses)/gains, net

Our net other (losses)/gains are primarily comprised of (i) loss on early repayment (if applicable) and (ii) finance cost. We present these losses net of profit from fair value changes on wealth management products. For the year ended 2017, our net other losses were RMB8.8 million. For the year ended 2018, we recorded net other gains of RMB17.6 million. For the year ended 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we recorded net other losses of RMB2.9 million and RMB8.6 million and net other gains of RMB24.8 million, respectively.

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Loss on early repayment	(36,738)	N/A	N/A	N/A	N/A	N/A	N/A
Finance cost, net	27,353	(19,366)	(4,632)	(2,553)	(8,555)	(17,324)	24,760
Gain from financial assets at fair value through profit or loss	545	1,360	1,781	485	2	1,016	2
Gain from disposal of subsidiary	—	35,589	—	—	—	—	—
Other (losses)/gains, net	**(8,840)**	**17,583**	**(2,851)**	**(2,068)**	**(8,553)**	**(16,308)**	**24,762**

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 the year ended 2017, our loss on early repayment was RMB36.7 million. Due to the adoption of IFRS 9, we do not record loss on early repayment for the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020.

Finance cost, net

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Exchange gains/(losses)	25,460	(25,718)	(10,261)	(88)	(10,216)	(18,426)	23,062
Gain from disposal of investments accounted for using the equity method	—	—	—	—	468	—	—
Interest expense on lease liabilities	N/A	N/A	(2,548)	(1,636)	(1,584)	(2,082)	(871)
Bank interest income	2,664	7,351	12,439	5,554	10,494	3,188	3,756
Interest expense on senior notes issued	—	—	—	(2,372)	—	89	—
Bank charges	(771)	(999)	(1,848)	(4,011)	(7,717)	(93)	(1,187)
Others	—	—	(2,414)	—	—	—	—
Total	**27,353**	**(19,366)**	**(4,632)**	**(2,553)**	**(8,555)**	**(17,324)**	**24,760**

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 the years ended 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our finance cost was RMB19.4 million, RMB4.6 million, RMB8.6 million and finance gain of RMB24.8 million, respectively. For the year ended 2017, we recorded a gain of RMB27.4 million.

Operating profit/(loss)

For the years ended 2017, 2018 and 2019, we recorded operating profit of RMB347.4 million, RMB101.6 million, RMB154.4 million, respectively, and our operating profit margin was 12.8%, 3.7% and 4.0%, respectively. For the six months ended June 30, 2020 and the three months ended September 30, 2020, we recorded operating loss of RMB1.3 billion and operating profit of RMB127.6 million, respectively.

Share of net (loss)/profit of associates accounted for using the equity method

Our share of net (loss)/profit of associates accounted for using the equity method represents our Group's share of (loss)/profit from our associates. 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. In May 2020, we disposed of this interest. In December 2017, we invested in 10% of the shares of Shanghai Cosco Shipping Small Loan Co., Ltd. For the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our share of net loss of associates accounted for using the equity method was RMB6.4 million, RMB2.9 million, net profit of RMB10.0 million, net loss of RMB11.2 million and net profit of RMB0.1 million, respectively.

Fair value loss of Preferred Shares

Fair value loss of Preferred Shares represents changes in fair value of the Preferred Shares, and is the difference between ending and beginning balances of the 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 the Preferred Shares as of the dates of issuance and at the end of each reporting period. For the years ended 2017 and 2018, our fair value loss of Preferred Shares was RMB1.3 billion and RMB1.05 billion, respectively. All of the Preferred Shares were automatically converted into ordinary shares upon the listing of our ordinary shares on the SEHK in June 2018 and no fair value loss of Preferred Shares was subsequently recorded.

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

For the years ended 2017 and 2018, the six months ended June 30, 2020 and the three months ended September 30, 2020, we incurred net loss of RMB1.0 billion, RMB1.0 billion and RMB1.1 billion and recorded net profit of RMB90.4 million, respectively. For the year ended 2019, we recorded net profit of RMB64.8 million. For the years ended 2017, 2018 and 2019, we had adjusted net profit of RMB292.5 million, RMB295.8 million and RMB368.2 million, respectively, and our adjusted net profit margin was 10.8%, 10.8% and 9.5%. For the six months ended June 30, 2020 and the three months ended September 30, 2020, we had adjusted net loss of RMB1.0 billion and adjusted net profit of RMB0.1 billion, respectively, and our adjusted net loss margin was negative 86.6% and 15.1%, respectively. See "— 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 years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020.

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, qualified as a high- and new-technology enterprise in Shanghai and 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 continues 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,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Loss/(Profit) before income tax	**(944,464)**	**(948,421)**	**164,331**	**58,355**	**(1,350,298)**	**80,832**	**127,737**
Tax calculated at PRC statutory income tax rate of 25%	236,116	237,105	(41,083)	(14,589)	337,575	(20,208)	(31,935)
Tax effects of:							
— Differential income tax rates applicable to subsidiaries	(288,136)	19,266	14,628	12,552	(58,603)	(3,051)	1,391
— Expenses not deductible for income tax purpose	(9,540)	(72,881)	(76,537)	(47,975)	(9,896)	(13,732)	(6,760)
Share-based compensation	(2,531)	(68,902)	(75,854)	(46,652)	(9,795)	(14,733)	(4,803)
Others	(7,009)	(3,979)	(683)	(1,323)	(101)	1,001	(1,957)
— Effect from fair value change of preferred shares	—	(261,789)	—	—	—	—	—
— Revenue not subject to income tax	—	4,125	—	—	—	—	—
— Super deduction for research and development expenses	4,762	9,061	4,724	—	—	—	—
— Previously unrecognized tax losses now recouped to reduce current tax expense	1,838	—	—	—	—	—	—
— No recognition of deferred tax assets on tax losses	(3,709)	(13,419)	(1,273)	(2,169)	(6)	2,169	6
Income tax credit/(expenses)	**(58,669)**	**(78,532)**	**(99,541)**	**(52,181)**	**269,070**	**(34,822)**	**(37,298)**

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.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three months Ended September 30, 2020 Compared to Three months Ended September 30, 2019

Total income

Our total income decreased by 29.4% to RMB0.7 billion for the three months ended September 30, 2020, compared to RMB1.0 billion for the three months ended September 30, 2019. This decrease was primarily due to a decrease in loan origination volume.

We recognized a decrease of 39.0% in interest type income to RMB406.0 million for the three months ended September 30, 2020, compared to RMB665.5 million for the three months ended September 30, 2019. The decrease in interest type income was primarily due to a decrease in the average outstanding loan balance. Interest expenses decreased by 30.8% to RMB152.1 million for the three months ended September 30, 2020, compared to RMB219.8 million for the three months ended September 30, 2019. The decrease in interest expenses primarily resulted from the decrease in the average borrowing balance and weighted interest rate.

Our loan facilitation service fees decreased by 53.9% to RMB249.3 million for the three months ended September 30, 2020, compared to RMB540.7 million for the three months ended September 30, 2019. This decrease was driven by a decrease in facilitation fee rates and loan origination volume as a result of a more conservative strategy that we had adopted since the first quarter of 2020 in response to the COVID-19 pandemic.

Other income increased by 415.9% to RMB223.4 million for the three months ended September 30, 2020, compared to RMB43.3 million for the three months ended September 30, 2019. The increase in other income was primarily due to a decrease in losses from guarantees.

Origination and servicing expenses

Our origination and servicing expenses increased by 0.5% to RMB233.0 million for the three months ended September 30, 2020, compared to RMB231.9 million for the three months ended September 30, 2019. This increase was due to our increased efforts on loan collection after the outbreak of the COVID-19 pandemic as part of our credit risk management measures to improve loan collection recovery rates and delinquency trends.

Sales and marketing expenses

Our sales and marketing expenses decreased by 40.6% to RMB4.5 million for the three months ended September 30, 2020, compared to RMB7.6 million for the three months ended September 30, 2019, due to a decrease in branding expenses and reallocation of resources to improve operation efficiency.

General and administrative expenses

Our general and administrative expenses decreased by 47.4% to RMB64.7 million for the three months ended September 30, 2020, compared to RMB123.0 million for the three months ended September 30, 2019, primarily due to a decrease in personnel related expenses, which included reduced share-based compensation of RMB19.2 million for the three months ended September 30, 2020, compared to RMB58.6 million for the three months ended September 30, 2019, as share options of resigned employees lapsed during the three months ended September 30, 2020.

Research and development expenses

Our research and development expenses decreased by 34.6% to RMB16.1 million for the three months ended September 30, 2020, compared to RMB24.6 million for the three months ended September 30, 2019, primarily due to overall cost savings in respect of non-essential research and development expenses.

Credit impairment losses

Our credit impairment losses decreased by 58.3% to RMB53.9 million for the three months ended September 30, 2020, compared to RMB129.0 million for the three months ended September 30, 2019, primarily due to a decrease in delinquent guarantee receivables.

Fair value change of loans to customers

Our fair value change of loans to customers decreased by 39.6% to RMB251.6 million for the three months ended September 30, 2020, compared to RMB416.9 million for the three months ended September 30, 2019, primarily due to a decrease in delinquency rates for loan repayment.

Other gains/(losses), net

We recorded net other gains of RMB24.8 million for the three months ended September 30, 2020, compared to net other losses of RMB16.3 million for the three months ended September 30, 2019, primarily due to an increase in exchange gains.

Operating profit

Our operating profit increased by 58.8% to RMB127.6 million for the three months ended September 30, 2020, compared to RMB80.4 million for the three months ended September 30, 2019, mainly due to the improvement of our asset quality.

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

Our share of net profit of associates accounted for using the equity method decreased by 76.6% to RMB0.1 million for the three months ended September 30, 2020, compared to RMB0.4 million for the three months ended September 30, 2019, which was due to the disposal of our interest in APass Holdings Company Limited.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 58.0% to RMB127.7 million for the three months ended September 30, 2020, compared to RMB80.8 million for the three months ended September 30, 2019.

Income tax expenses

Our income tax expenses increased by 7.1% to RMB37.3 million for the three months ended September 30, 2020, compared to RMB34.8 million for the three months ended September 30, 2019, primarily due to the higher taxable income of our PRC subsidiaries subject to income tax in 2020.

Profit for the period

As a result of the foregoing, our profit for the period increased by 96.6% to RMB90.4 million for the three months ended September 30, 2020, compared to RMB46.0 million for the three months ended September 30, 2019.

Adjusted net profit

Our adjusted net profit increased by 4.8% to RMB109.7 million for the three months ended September 30, 2020, compared to RMB104.6 million for the three months ended September 30, 2019, which is in line with our Non-IFRS adjusted operating profit. Our adjusted net profit margin was 10.2% and 15.1% for the three months ended September 30, 2019 and 2020, respectively. See "— Non-IFRS Measures."

Six months Ended June 30, 2020 Compared to Six months Ended June 30, 2019

Total income

Our total income decreased by 35.3% to RMB1.2 billion for the six months ended June 30, 2020, compared to RMB1.9 billion for the six months ended June 30, 2019. This decrease was primarily due to a decrease in loan origination volume and an increase in delinquency rates as a result of the impact of the COVID-19 pandemic during the first quarter of 2020.

We recognized an increase of 13.7% in interest type income to RMB1.3 billion for the six months ended June 30, 2020, compared to RMB1.2 billion for the six months ended June 30, 2019. The increase in interest type income was primarily due to an increase in the average outstanding loan balance as a result of the loans originated in the second half of 2019. Interest expenses increased by 12.8% to RMB446.5 million for the six months ended June 30, 2020, compared to RMB395.9 million for the six months ended June 30, 2019. The increase in interest expenses primarily resulted from the interest expenses in respect of the 2021 Notes issued on June 21, 2019.

Our loan facilitation service fees decreased by 58.4% to RMB238.2 million for the six months ended June 30, 2020, compared to RMB572.9 million for the six months ended June 30, 2019. This decrease was driven by a decrease in facilitation fee rates and loan origination volume as a result of a more conservative strategy adopted during the first quarter of 2020 in response to the COVID-19 pandemic. Loans originated through credit-enhanced and pure loan facilitation structures decreased by 10.3% to RMB8.2 billion for the six months ended June 30, 2020, compared to RMB9.1 billion for the six months ended June 30, 2019.

Other income decreased by 80.9% to RMB101.6 million for the six months ended June 30, 2020, compared to RMB530.7 million for the six months ended June 30, 2019. The decrease in other income was primarily due to a decrease in referral fees and an increase in delinquency rates for loan repayments reflected in losses from guarantees as a result of the adverse impact of the COVID-19 pandemic during the first quarter of 2020.

Origination and servicing expenses

Our origination and servicing expenses increased by 22.7% to RMB370.3 million for the six months ended June 30, 2020, compared to RMB301.9 million for the six months ended June 30, 2019, due to our increased efforts on loan collection after the outbreak of the COVID-19 pandemic as part of our credit risk management measures to improve loan collection recovery rates and delinquency trends.

Sales and marketing expenses

Our sales and marketing expenses decreased by 40.3% to RMB8.8 million for the six months ended June 30, 2020, compared to RMB14.7 million for the six months ended June 30, 2019, due to a decrease in branding expenses and reallocation of resources to improve operation efficiency.

General and administrative expenses

Our general and administrative expenses decreased by 45.5% to RMB153.2 million for the six months ended June 30, 2020, compared to RMB281.0 million for the six months ended June 30, 2019, primarily due to a decrease in personnel related expenses, which included reduced share-based compensation of RMB39.2 million for the six months ended June 30, 2020, compared to RMB186.6 million for the six months ended June 30, 2019, as share options of resigned employees lapsed during the six months ended June 30, 2020.

Research and development expenses

Our research and development expenses decreased by 5.2% to RMB36.9 million for the six months ended June 30, 2020, compared to RMB38.9 million for the six months ended June 30, 2019, primarily due to overall cost savings in respect of non-essential research and development expenses.

Credit impairment losses

Our credit impairment losses increased by 32.9% to RMB165.0 million for the six months ended June 30, 2020, compared to RMB124.2 million for the six months ended June 30, 2019, primarily due to an increase in delinquent guarantee receivables.

Fair value change of loans to customers

Our fair value change of loans to customers increased by 73.1% to RMB1.8 billion for the six months ended June 30, 2020, compared to RMB1.0 billion for the six months ended June 30, 2019, primarily due to a decrease in loan origination volume and an increase in delinquency rates for loan repayments.

Other losses, net

Our net other losses increased by 313.6% to RMB8.6 million for the six months ended June 30, 2020, compared to RMB2.1 million for the six months ended June 30, 2019, primarily due to an increase foreign exchange losses.

Operating (loss)/profit

We recorded an operating loss of RMB1.3 billion for the six months ended June 30, 2020, compared to an operating profit of RMB57.4 million for the six months ended June 30, 2019, mainly due to the adverse impact of the COVID-19 pandemic during the first quarter of 2020 which led to an increase in delinquency rates for loan repayments and an increase in fair value loss in our loan portfolio.

Share of net (loss)/profit of associates accounted for using the equity method

We recorded a share of net loss of associates accounted for using the equity method of RMB11.2 million for the six months ended June 30, 2020, compared to a share of net profit of associates accounted for using the equity method of RMB1.0 million for the six months ended June 30, 2019, which was due to the disposal of our interest in APass Holdings Company Limited.

(Loss)/Profit before income tax

As a result of the foregoing, we recorded a loss before income tax of RMB1.4 billion for the six months ended June 30, 2020, compared to a profit before income tax of RMB58.4 million for the six months ended June 30, 2019.

Income tax credit/(expense)

We recorded income tax credit of RMB269.1 million for the six months ended June 30, 2020, compared to an income tax expense of RMB52.2 million for the six months ended June 30, 2019, primarily due to the higher taxable income of our PRC subsidiaries subject to income tax in 2020.

(Loss)/Profit for the year

As a result of the foregoing, we recorded a loss of RMB1.1 billion for the six months ended June 30, 2020, compared to a profit of RMB6.2 million for the six months ended June 30, 2019.

Adjusted net (loss)/profit

Our adjusted net loss was RMB1.0 billion for the six months ended June 30, 2020, compared to our adjusted net profit of RMB192.8 million for the six months ended June 30, 2019, which is in line with our Non-IFRS adjusted operating (loss)/profit. Our adjusted net profit margin was 10.4% and negative 86.6%, respectively. See "— Non-IFRS Measures."

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Total income

Our total income increased by 41.2% to RMB3.9 billion for 2019, compared to RMB2.7 billion for 2018. This increase was primarily due to the increase in loan origination volume through our credit-enhanced loan facilitation structure.

As a result of our adopting IFRS 9 with effect from January 1, 2018, we recognized a decrease of 9.0% in net interest type income to RMB1.8 billion in 2019, compared to RMB2.0 billion in 2018. The decrease was primarily due to the disposal of our online-to-offline business platform in the second half of 2018 and as we gradually ceased to originate online-to-offline credit products as from such date. Therefore, the interest type income of online-to-offline credit products decreased by 55.9% to RMB476.4 million for 2019, compared to RMB1.1 billion for 2018. On the other hand, our online interest type income increased by 17.0% to RMB2.2 billion for 2019, compared to RMB1.9 billion for 2018, due to the growth of loan origination volume through direct lending and trust lending structures. Interest expenses decreased by 11.6% to RMB862.2 million for 2019, compared to RMB974.8 million for 2018. The decrease in interest expenses primarily resulted from the decrease in the average borrowing balance during 2019.

Our loan facilitation service fees increased by 362.3% to RMB1.3 billion for 2019, compared to RMB269.8 million for 2018. The increase in loan facilitation service fees was driven by a significant increase in our loan origination volume through credit-enhanced loan facilitation structure. Loans originated under the form of credit-enhanced loan facilitation structure increased by 221.6% to RMB16.3 billion for 2019, compared to RMB5.1 billion for 2018.

Our other income increased by 63.8% to RMB837.1 million for 2019, compared to RMB511.2 million for 2018. The increase in other income was primarily due to an increase in referral fees resulting from our targeted efforts in cooperating with our business partners and offering cross-selling opportunities to further enhance the value of our platform.

Origination and servicing expenses

Our origination and servicing expenses decreased by 18.0% to RMB709.5 million for 2019, compared to RMB865.6 million for 2018, due to the disposal of our online-to-offline business platform in the second half of 2018 and the resulting substantial decrease in our employee benefit expenses.

Sales and marketing expenses

Our sales and marketing expenses increased by 23.4% to RMB32.2 million for 2019, compared to RMB26.1 million for 2018, because of increased costs of public relations and market surveillance to monitor the latest market trends in 2019.

General and administrative expenses

Our general and administrative expenses increased slightly by 0.6% to RMB505.4 million for 2019, compared to RMB502.4 million for 2018, mainly due to (i) a decrease of RMB34.6 million in other general and administrative expenses attributable to improved operation efficiency, (ii) an increase of RMB27.8 million in share-based compensation expenses and (iii) an increase of RMB9.8 million in tax and surcharges that resulted from the increased total income in 2019.

Research and development expenses

Our research and development expenses increased by 24.8% to RMB92.4 million for 2019, compared to RMB74.1 million for 2018, primarily due to an increase in employee benefit expenses in order to strengthen our technology and risk management capabilities.

Credit impairment losses

Our credit impairment losses increased by 468.7% to RMB309.1 million for 2019, compared to RMB54.3 million for 2018, primarily due to an increase in guarantee receivables resulting from an increased loan volume through the credit-enhanced loan facilities structure.

Fair value change of loans to customers

Our fair value change of loans to customers increased by 82.2% to RMB2.1 billion for 2019, compared to RMB1.1 billion for 2018, primarily due to the increase in loans originated through our trust lending structure.

Other gains/(losses), net

We recorded net other losses of RMB2.9 million for 2019, compared to net other gains of RMB17.6 million for 2018, primarily due to gains from the disposal of our online-to-offline business platform in 2018.

Operating profit

Operating profit increased by 51.9% to RMB154.4 million for 2019, compared to RMB101.6 million for 2018, mainly due to the successful implementation of our business strategy to shift to a pure online business platform and steady growth of our business scale. In addition, our operation efficiency has improved since the disposal of our online-to-offline business platform.

Share of net profit/(loss) of associates accounted for using the equity method

We recorded a share of net profit of associates accounted for using the equity method of RMB10.0 million for 2019, compared to a share of net loss of associates accounted for using the equity method of RMB2.9 million for 2018, which was due to a profit from APass Holdings Company Limited.

Fair value change of Preferred Shares

Fair value loss of the Preferred Shares for 2018 was RMB1.1 billion. As the Preferred Shares were converted into ordinary shares upon our listing on the Main Board of the SEHK in June 2018, there was no fair value loss of Preferred Shares for 2019.

Profit/(Loss) before income tax

As a result of the foregoing, we recorded a profit before income tax of RMB164.3 million in 2019, compared to a loss before income tax of RMB948.4 million for 2018.

Income tax expenses

Our income tax expenses increased by 26.8% to RMB99.5 million for 2019, compared to RMB78.5 million for 2018, primarily due to the higher taxable income of our PRC subsidiaries subject to income tax in 2019.

Profit/(Loss) for the year

As a result of the foregoing, we recorded a profit of RMB64.8 million for 2019, compared to a loss of RMB1.0 billion for 2018.

Adjusted net profit

For 2018 and 2019, we had adjusted net profit of RMB295.8 million and RMB368.2 million, respectively, and our adjusted net profit margin was 10.8% and 9.5%, respectively. See "— Non-IFRS Measures."

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Total income

Our total income increased by 1.1% to RMB2.7 billion for 2018, compared to RMB2.7 billion for 2017. This increase was primarily due to the increase in our loan origination volume through our credit-enhanced loan facilitation structure.

As a result of our adopting IFRS 9 with effect from January 1, 2018, we recognized interest type income of RMB2.9 billion derived from outstanding balance of loans to customers originated under direct lending and trust lending structures. For 2017, we recognized interest income of RMB3.3 billion derived from loans to customers at amortized cost. The outstanding balance of on-balance sheet loans, which is defined as the outstanding loan principal balance calculated using amortization schedule, was RMB9.3 billion as of December 31, 2018, a decrease of 28.9% compared to RMB13.1 billion as of

December 31, 2017. Our interest expenses increased from RMB918.2 million for 2017 to RMB974.8 million for 2018. As a result, our net interest income or net interest type income decreased by 16.3% from RMB2.3 billion for 2017 to RMB2.0 billion for 2018.

Our loan facilitation service fees increased by 221.6% to RMB269.8 million for 2018, compared to RMB83.9 million for 2017. This increase was primarily due to the significant increase in our loan origination volume through our credit-enhanced loan facilitation structure and pure loan facilitation structure.

Our other income increased by 78.6% to RMB511.2 million for 2018, compared to RMB286.2 million for 2017. This increase was primarily due to fees received from our user membership service that we launched in 2018.

Origination and servicing expenses

Our origination and servicing expenses increased by 42.5% to RMB865.6 million for 2018, compared to RMB607.6 million for 2017, primarily due to increases in loan servicing expenses, including credit card record access charges and third-party loan servicing vendor charges. The increase in loan servicing expenses resulted from our enhanced collection efforts and strict emphasis on credit assessments.

Sales and marketing expenses

Our sales and marketing expenses decreased by 62.1% to RMB26.1 million for 2018, compared to RMB69.0 million for 2017, primarily resulting from expenses relating to integrating user acquisition channels from outsourcing companies.

General and administrative expenses

Our general and administrative expenses increased by 176.4% to RMB502.4 million for 2018, compared to RMB181.7 million for 2017, primarily due to (i) an increase in personnel related expenses, including share-based compensation and (ii) RMB49.9 million listing expenses primarily relating to our listing on the Main Board of the SEHK in June 2018.

Research and development expenses

We recorded research and development expenses of RMB74.1 million for 2018, which is broadly in line with the RMB74.4 million for 2017.

Credit impairment losses/Impairment losses

Our credit impairment losses or impairment losses were RMB54.3 million for 2018. Our impairment losses were RMB1.4 billion for 2017.

Fair value change of loans to customers

Our fair value change of loans to customers was RMB1.1 billion for 2018. We did not record any fair value change of loans to customers for 2017.

Other gains/losses, net

We recorded net other gains of RMB17.6 million for 2018, compared to net other losses of RMB8.8 million for 2017, primarily due to the reclassification of loss on early repayment from January 1, 2018 as a result of our adopting IFRS 9. Under IFRS 9, the early repayment option associated with loans is no longer measured separately and the associated loss on early repayment has been reclassified as fair value change of loans to customers.

Operating profit

As a result of the foregoing, we recorded an operating profit of RMB101.6 million for 2018, as compared to an operating profit of RMB347.4 million for 2017.

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 decreased by 54.5% to RMB2.9 million for 2018, compared to RMB6.4 million for 2017 due to the net loss of APass Holdings Company Limited.

Fair value change of Preferred Shares

Fair value loss of Preferred Shares for 2018 was RMB1.1 billion, compared to RMB1.3 billion for 2017. This significant loss in fair value 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 RMB948.4 million for 2018, compared to RMB944.5 million for 2017.

Income tax expenses

Our income tax expenses increased by 33.9% to RMB78.5 million for 2018, compared to RMB58.7 million for 2017, primarily due to the higher taxable income of our PRC subsidiaries subject to income tax in 2018.

Loss for the period

As a result of the foregoing, we recorded a loss of RMB1.0 billion for 2018, compared to RMB1.0 billion for 2017.

Adjusted net profit

For 2018, we had adjusted net profit of RMB295.8 million, compared to RMB292.5 million for 2017, and our adjusted net profit margin for 2018 and 2017 was 10.8% and 10.8%, respectively. See "— 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,			As of June 30,	As of September 30,
	2017	**2018**	**2019**	**2020**	**2020**
		RMB'000			
				(unaudited)	*(unaudited)*
Assets					
Cash and cash equivalents	568,196	1,050,111	2,169,522	1,813,986	1,352,627
Restricted cash	143,570	127,902	264,584	248,248	238,313
Loans to customers at amortized cost	11,479,696	—	—	—	—
Loans to customers at fair value through profit or loss	N/A	8,863,246	9,457,673	5,338,308	4,168,741
Contract assets	98,845	154,143	523,022	221,727	296,242
Guarantee receivables	130,073	206,146	621,248	616,392	702,020
Financial assets at fair value through profit or loss	110,545	—	280	20,282	20,284
Investments accounted for using the equity method	30,784	27,684	37,430	20,462	20,566
Deferred income tax assets	279,860	413,117	468,256	740,352	783,424
Intangible assets	13,488	16,814	22,175	24,625	30,990
Property and equipment	74,355	59,066	51,196	41,433	37,045
Right-of-use assets	N/A	N/A	25,824	58,818	52,183
Other assets	507,596	759,446	648,147	473,795	524,185
Total assets	**13,437,008**	**11,677,675**	**14,289,357**	**9,618,428**	**8,226,620**
Liabilities					
Borrowings	11,063,133	8,170,224	9,236,329	5,525,792	4,167,961
Senior notes	—	—	678,829	695,475	691,269
Lease liabilities	N/A	N/A	25,197	59,504	53,074
Guarantee liabilities	169,553	204,496	723,617	688,393	678,917
Tax liabilities	108,338	85,400	124,960	255,550	96,676
Deferred income tax liabilities	122,314	77,734	86,101	20,593	69,218
Preferred Shares	3,042,173	—	—	—	—
Other liabilities	440,107	355,094	314,046	313,185	320,220
Total liabilities	**14,945,618**	**8,892,948**	**11,189,079**	**7,558,492**	**6,077,335**
(Deficit)/Equity					
Share capital	394,462	40,938	40,913	40,857	40,594
Share premium	—	5,581,926	5,581,016	5,578,217	5,566,587
Treasury shares	—	—	(51,774)	(38,999)	(43,742)
Reserves	60,951	380,455	682,913	713,879	729,425
Accumulated deficits	(1,964,023)	(3,218,592)	(3,155,790)	(4,237,030)	(4,146,597)
Non-controlling interests	—	—	3,000	3,012	3,018
Total (deficit)/equity[(1)]	**(1,508,610)**	**2,784,727**	**3,100,278**	**2,059,936**	**2,149,285**
Total liabilities and equity	**13,437,008**	**11,677,675**	**14,289,357**	**9,618,428**	**8,226,620**
Non-IFRS Measure					
Adjusted total equity (unaudited)[(1)]	1,533,563	2,784,727	3,100,278	2,059,936	2,149,285

Notes:

(1) 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, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020.

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 92.4%, 89.1%, 91.2%, 85.7% and 82.1% of our total assets as of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, respectively.

Loans to customers at fair value through profit or loss/Loans to customers at amortized cost

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 at fair value through profit or loss/loans to customers at amortized cost as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
			RMB'000		
				(unaudited)	*(unaudited)*
Loans to customers at amortized cost, gross	13,276,407	—	—	—	—
Less: impairment allowances	(1,796,711)	—	—	—	—
Loans to customers at amortized cost, net	**11,479,696**	**—**	**—**	**—**	**—**
Credit loans	N/A	7,288,408	8,822,968	4,922,834	3,844,197
Pledged loans	N/A	1,574,838	634,705	415,474	324,544
Loans to customers at fair value through profit or loss	**N/A**	**8,863,246**	**9,457,673**	**5,338,308**	**4,168,741**

In 2017, our net loans to customers at amortized cost was RMB11.5 billion. Between 2018 and 2019, our net loans to customers at fair value through profit or loss increased by 6.7% from RMB8.9 billion to RMB9.5 billion. In the six months ended June 30, 2020 and the three months ended September 30, 2020, our net loans to customers at fair value through profit or loss were RMB5.3 billion and RMB4.2 billion. The changes during these periods were due to the changes of funding structures.

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

	For the Year Ended December 31,			For the Six Months Ended June 30,	For the Three Months Ended September 30,
	2017	2018	2019	2020	2020
First payment delinquency ratio[1] .	3.1%	1.6%	2.1%	0.8%	0.6%
M1−M3 ratio[2].	2.4%	3.5%	4.1%	7.2%	3.6%
M3+ ratio[3]	3.0%	5.0%	4.2%	7.7%	7.6%

Notes:

(1) First-payment delinquency ratio is defined as the total balance of outstanding principal amount of the loans we originated in the applicable period that were delinquent on their first payment due dates divided by the aggregate loan origination volume in that period.

(2) M1−M3 ratio is calculated by dividing (i) the outstanding balance of loans which have been delinquent up to 3 months, by (ii) total outstanding balance of loans to customers.

(3) M3+ ratio is calculated by dividing (i) the outstanding balance of loans which have been delinquent for more than 3 months and have not been written-off, by (ii) total outstanding balance of loans to customers.

Cash and cash equivalents

As of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, our cash and cash equivalents were RMB568.2 million, RMB1.1 billion, RMB2.2 billion, RMB1.8 billion and RMB1.4 billion, respectively. This increase was primarily due to the significant increase in our operating activities, including (i) decrease in loans to customers, (ii) decrease in other operating liabilities, and (iii) increase in contract assets and guarantee receivables.

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, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, our restricted cash was RMB143.6 million, RMB127.9 million, RMB264.6 million, RMB248.2 million and RMB238.3 million. This 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,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
			RMB'000		
				(unaudited)	(unaudited)
Contract assets, gross	108,791	174,039	655,815	311,525	348,066
Less: ECL allowance	N/A	(19,896)	(132,793)	(89,798)	(51,824)
Less: Impairment allowances	(9,946)	N/A	N/A	N/A	N/A
Contract assets, net	98,845	154,143	523,022	221,727	296,242

Our contract assets increased significantly from RMB98.8 million as of December 31, 2017 to RMB154.1 million as of December 31, 2018 and further increased by 239.3% to RMB523.0 million as of December 31, 2019, and our contract assets were RMB221.7 million and RMB296.2 million as of June 30, 2020 and September 30, 2020, respectively, primarily due to the significant increase in the loans originated by us through our credit-enhanced loan facilitation structure in 2017 and 2018.

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 RMB130.1 million as of December 31, 2017 to RMB206.1 million as of December 31, 2018 and further increased by 201.4% to RMB621.2 million as of December 31, 2019, and our guarantee receivables were RMB616.4 million and RMB702.0 million as of June 30, 2020 and September 30, 2020, respectively. These increases were due to the significant growth of our credit-enhanced loan facilitation structure in 2017, 2018, 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020.

Liabilities

The principal components of our liabilities are borrowings and, for 2017 and 2018, Preferred Shares, which collectively represented 94.4%, 91.9%, 82.5%, 73.1% and 68.6% of our total liabilities as of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, 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 net payouts made during the year. Our guarantee liabilities increased significantly from RMB169.6 million as of December 31, 2017 to RMB204.5 million as of December 31, 2018 and further increased by 253.9% to RMB723.6 million as of December 31, 2019, and our guarantee liabilities were RMB688.4 million and RMB678.9 million as of June 30, 2020 and September 30, 2020, respectively, 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, (iv) bank borrowings and (v) the 2021 Notes. We had not experienced any difficulties in obtaining borrowings or credit facilities from banks during the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020.

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

	As of December 31,			As of June 30,	As of September 30,
	2017	**2018**	**2019**	**2020**	**2020**
			RMB'000		
				(unaudited)	*(unaudited)*
Payables to trust plan holders	9,411,228	6,952,645	8,637,946	4,968,460	3,621,900
Borrowings from corporations	1,109,440	1,077,789	598,383	557,332	546,061
Borrowings from individuals	540,532	139,124	—	—	—
Secured borrowings	1,933	666	—	—	—
2021 Notes	—	—	678,829	695,475	691,269
Total borrowings	**11,063,133**	**8,170,224**	**9,915,158**	**6,221,267**	**4,859,230**

Apart from the 2021 Notes which are denominated in U.S. dollars, 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.

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

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
			RMB'000		
				(unaudited)	(unaudited)
Denominated in Renminbi . .	10,245,161	7,838,730	9,236,329	5,525,792	4,167,961
Denominated in HK dollars .	801,636	313,820	—	—	—
Denominated in U.S. dollars	16,336	17,674	—	—	—
Total borrowings	**11,063,133**	**8,170,224**	**9,236,329**	**5,525,792**	**4,167,961**

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

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
			RMB'000		
				(unaudited)	(unaudited)
Up to 1 year.	5,376,867	4,054,230	3,721,399	1,935,555	1,230,169
1 year or more, up to 2 years	5,684,333	4,065,760	4,903,920	3,254,087	2,601,492
2 years or more, up to 5 years	1,933	50,234	611,010	336,150	336,300
Total borrowings	**11,063,133**	**8,170,224**	**9,236,329**	**5,525,792**	**4,167,961**

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. 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 CBIRC-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, which are typically 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 June 30,	As of September 30,
	2017	2018	2019	2020	2020
				(unaudited)	*(unaudited)*
Payables to trust plans and asset management plans					
Effective interest rate range .	6.0%–15.0%	7.0%–15.0%	6.8%–12.5%	6.8%–12.5%	6.8%–12.5%
Weighted average interest rate.	10.0%	11.0%	11.0%	10.6%	10.4%

As of December 31, 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, our payables to senior tranche trust plan holders and asset management plans were RMB9.4 billion, RMB7.0 billion, RMB8.6 billion, RMB5.0 billion and RMB3.6 billion, respectively. The changes during these periods were due to the changes of funding structures.

Other borrowings

Our other borrowings refer to our own debt financings, including (i) the 2021 Notes, and (ii) onshore loans, or loans of our PRC subsidiaries from PRC banks and PRC independent third-party corporations.

The following table sets forth certain information with respect to our other borrowings as of September 30, 2020.

Sources of Other Borrowings	Relationship with Us
Onshore	
— Corporations	Independent Third Parties
Offshore	
— Senior Notes	Independent Third Parties

We have borrowed money from two 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 RMB542.7 million as of September 30, 2020.

Most of our other borrowings were unsecured during the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020. As of December 31, 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, unsecured other borrowings accounted for 99.9%, 99.9%, 100.0%, 100.0% and 100.0% 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 June 30,	As of September 30,
	2017	2018	2019	2020	2020
			RMB'000	*(unaudited)*	*(unaudited)*
Secured					
Mortgage borrowings					
Bank borrowings	1,933	666	—	—	—
Pledged borrowings					
Borrowings from corporations	—	—	—	—	—
Sub-total	1,933	666	—	—	—
Unsecured					
Borrowings from corporations	1,109,440	1,077,789	598,383	557,332	546,061
Borrowings from individuals	540,532	139,124	—	—	—
Bank borrowings	—	—	—	—	—
Sub-total	1,649,972	1,216,913	598,383	557,332	546,061
Total other borrowings	**1,651,905**	**1,217,579**	**598,383**	**557,332**	**546,061**

The interest rates vary among our other borrowings. As of September 30, 2020, the weighted average effective interest rate on our borrowings from corporations, bank borrowings and the 2021 Notes was 12.1%, nil and 11.0%, respectively.

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

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
			%	*(unaudited)*	*(unaudited)*
Other Borrowings					
Borrowings from corporations					
— Weighted average effective interest rate .	10.0	10.0	10.5	11.9	12.1
Borrowings from individuals					
— Weighted average effective interest rate .	10.0	10.0	10.0	—	—
Bank Borrowings					
— Weighted average effective interest rate .	7.4	6.2	6.2	—	—

Preferred Shares

We raised an aggregate of approximately RMB1.3 billion in cash from multiple issuances of Preferred Shares to various investors, including approximately RMB692.9 million raised during the three years ended December 31, 2018. Upon the listing of our ordinary shares on the SEHK, all of the Preferred Shares have been automatically converted into our ordinary shares. As of September 30, 2020, there were no Preferred Shares outstanding.

Contingent Liabilities

As of September 30, 2020, 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.

Except as aforesaid and apart from intra-group liabilities, as of September 30, 2020, 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.

Acquisitions and Disposals

On December 31, 2018, we completed the disposal of Hangzhou Vision Financial Servicing Co., Ltd. which operated our online-to-offline business platform, including leases of offline branch offices and outlets, intangible assets, such as certain intellectual property registration rights and personnel relating to the online-to-offline business platform for a consideration of approximately RMB11.8 million. On May 27, 2020, we completed the disposal of our 40% interest in APass Holdings Company Limited, which controls an operational company in the PRC that provides data development services, for a consideraion of HK$7.2 million.

LIQUIDITY AND CAPITAL RESOURCES

During the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we have funded our cash requirements principally from cash flows from operating activities, issuance of Preferred Shares, borrowings from corporations and individuals, bank borrowings, the proceeds from our initial public offering and the proceeds from the issuance of the 2021 Notes. We have primarily used cash to fund our operations and business expansion. We had cash and cash equivalents and restricted cash of RMB711.8 million, RMB1.2 billion, RMB2.4 billion, RMB2.1 billion and RMB1.6 billion as of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, respectively. We generally deposit our excess cash in interest bearing bank accounts and current accounts.

Cash Flows

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Net cash (outflow)/inflow from operating activities	(4,163,479)	3,128,239	367,619	1,791,972	3,818,076	(342,494)	1,059,356
Net cash (outflow)/inflow from investing activities	(190,027)	123,435	(26,517)	(89,755)	(3,171)	(87,839)	(9,647)
Net cash inflow/(outflow) from financing activities	4,634,202	(2,765,474)	778,367	(862,493)	(4,170,254)	490,522	(1,511,354)
Net increase/(decrease) in cash and cash equivalents	280,696	486,200	1,119,469	839,724	(355,349)	60,189	(461,645)
Cash and cash equivalents at the beginning of the year	289,889	568,196	1,050,112	1,050,112	2,169,524	1,889,822	1,814,054
Effect of foreign exchange rate changes on cash and cash equivalents	(2,389)	(4,284)	(57)	(14)	(121)	(127)	358
Cash and cash equivalents at the end of the year	**568,196**	**1,050,112**	**2,169,524**	**1,889,822**	**1,814,054**	**1,949,884**	**1,352,767**

Net cash inflow/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 the three months ended September 30, 2020, our net cash inflow from operating activities was RMB1.1 billion, being RMB1.2 billion cash generated from operating activities and less RMB155.9 million in income tax payments. The difference between our profit before income tax of RMB128.0 million and our cash generated from operating activities of RMB1.2 billion was primarily due to (i) an increase of RMB918.0 million in loans to customers, and (ii) a decrease of RMB213.4 million in contract assets and guarantee receivables, partially offset by (iii) fair value change of RMB251.6 million for loans to customers.

For the six months ended June 30, 2020, our net cash inflow from operating activities was RMB3.8 billion, of which RMB3.8 billion was cash generated from operating activities and RMB8.3 million was income tax payments. The difference between our loss before income tax of RMB1.4 billion and our cash generated from operating activities of RMB3.8 billion was primarily due to (i) a decrease of RMB2.3 billion in loans to customers, and (ii) a decrease of RMB143.7 million in contract assets and guarantee receivables, partially offset by (iii) fair value change of RMB1.8 billion for loans to customers.

For 2019, our net cash inflow from operating activities was RMB367.6 million, of which RMB475.4 million was cash generated from operating activities and RMB107.8 million was income tax payments. The difference between our profit before income tax of RMB164.3 million and our cash generated from operating activities of RMB475.4 million was primarily due to (i) an increase of RMB2.7 billion in loans to customers, and (ii) an increase of RMB1.1 billion in contract assets and guarantee receivables, partially offset by (iii) fair value change of RMB2.1 billion for loans to customers.

For 2018, our net cash inflow from operating activities was RMB3.1 billion, of which RMB3.3 billion was cash generated from operating activities and RMB201.7 million was income tax payments. The difference between our loss before income tax of RMB948.4 million and our cash generated from operating activities of RMB3.3 billion was primarily due to (i) a decrease of RMB1.5 billion in loans to customers, and (ii) an increase of RMB184.7 million in contract assets and guarantee receivables, partially offset by (iii) fair value change of RMB1.1 billion for loans to customers, and (iv) an adjustment of RMB1.1 billion in fair value loss of our Preferred Shares.

For 2017, our net cash outflow from operating activities was RMB4.2 billion, of which RMB4.1 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 RMB4.1 billion was primarily due to (i) an increase of RMB6.6 billion in loans to customers, and (ii) an increase of RMB160.1 million in contract assets and guarantee receivables, partially offset by (iii) provisions of RMB1.4 billion for loans impairment, and (iv) an adjustment of RMB1.3 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.

Net cash outflow/inflow from investing activities

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

For the three months ended September 30, 2020, our net cash outflow from investing activities was RMB9.6 million, which was primarily attributable to payment for intangible assets.

For the six months ended June 30, 2020, our net cash outflow from investing activities was RMB3.2 million, which was primarily attributable to RMB6.6 million in proceeds from the disposal of investments accounted for using the equity method.

For 2019, our net cash outflow from investing activities was RMB26.5 million, which was primarily attributable to RMB638.6 million in proceeds from the disposal of financial assets at fair value through profit or loss and partially offset by RMB637.1 million in payments for financial assets at fair value through profit or loss.

For 2018, our net cash inflow from investing activities was RMB123.4 million, which was primarily attributable to (i) RMB231.9 million in proceeds from disposal of financial assets at fair value through profit or loss, and (ii) RMB8.4 million in proceeds from disposal of subsidiaries, and partially offset by RMB120.0 million in payments for financial assets at fair value through profit or loss.

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 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.

Net cash outflow/inflow from financing activities

For the three months ended September 30, 2020, our net cash outflow from financing activities was RMB1.5 billion, which was primarily attributable to (i) RMB1.3 billion net repayment to trust plans in connection with our loans originated through our trust lending structure, (ii) RMB11.3 million net repayment of borrowings and (iii) RMB149.7 million payment of interest expenses.

For the six months ended June 30, 2020, our net cash outflow from financing activities was RMB4.2 billion, which was primarily attributable to (i) RMB3.6 billion used in net repayment of trust plans in connection with our loans originated through our trust lending structure, (ii) RMB467.0 million used in interest expenses, and (iii) RMB41.1 million used in net repayment of borrowings.

For 2019, our net cash inflow from financing activities was RMB778.4 million, which was primarily attributable to (i) RMB1.6 billion net received from trust plans in connection with our loans originated through our trust lending structure, (ii) RMB660.6 million received from issuance of senior notes, and (iii) RMB1.7 million received from the issuance of ordinary shares to employees, partially offset by (x) RMB807.3 million used in interest expenses, and (y) RMB622.9 million used in net repayment of borrowings.

For 2018, our net cash outflow from financing activities was RMB2.8 billion, which was primarily attributable to (i) RMB6.5 billion received from trust plans in connection with our loans originated through our trust lending structure, (ii) RMB280.3 million received from borrowings, and (iii) RMB1.2 billion received from the issuance of our ordinary shares for our initial public offering, partially offset by (x) RMB9.0 billion used in repayment of trust plans in connection with our loans originated through our trust lending structure, (y) RMB978.2 million used in interest expenses, and (z) RMB776.1 million used in repayment of borrowings.

For 2017, our net cash generated from financing activities was RMB4.6 billion, which was primarily attributable to (i) RMB8.1 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) RMB3.5 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.

Working Capital

We intend to finance our working capital with external borrowings, the net proceeds from the offering of the Notes, 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.

CAPITAL EXPENDITURES AND INVESTMENT

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
				RMB'000			
				(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Property and equipment	54,798	18,530	19,904	5,666	5,615	10,825	2,328
Intangible assets	5,229	5,865	8,114	4,200	4,131	303	7,319
Investment in associates	20,000	—	—	—	—	—	—
Financial assets at fair value through profit or loss	110,000	120,000	637,080	265,000	—	372,080	—
Total	**190,027**	**144,395**	**665,098**	**274,866**	**9,746**	**383,208**	**9,647**

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 years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020 primarily with the issuance of Preferred Shares in private placement, the issuance of ordinary shares in our initial public offering, the issuance of the 2021 Notes, borrowings from corporations and individuals and cash generated from our operating activities.

SELECTED FINANCIAL RATIOS

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended September 30,	
	2017	2018	2019	2019	2020	2019	2020
Operating Profit Margin[1]	12.8%	3.7%	4.0%	3.1%	(111.2)%	7.8%	17.6%
Adjusted Operating Profit Margin[2]	13.5%	15.6%	11.8%	13.1%	(108.0)%	13.5%	20.2%
Adjusted Net Profit Margin[3]	10.8%	10.8%	9.5%	10.4%	(86.6)%	10.2%	15.1%
Adjusted Return on Assets[4]	2.8%	2.4%	2.8%	1.7%	(8.7)%	0.8%	1.2%
Adjusted Return on Equity[5]	25.6%	13.7%	12.5%	6.7%	(40.4)%	3.5%	5.2%

Notes:

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

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

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

(4) 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.

(5) 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 the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we had operating profit of RMB347.4 million, RMB101.6 million and RMB154.4 million, operating loss of RMB1,339.1 million and an operating profit of RMB127.6 million, respectively, and operating profit margin of 12.8%, 3.7%, 4.0%, negative 111.2% and 17.6% respectively, primarily due to the significant growth of our business resulting in an increase in the scale of our business. For the six months ended June 30, 2020, our operating profit margin was negative because we recorded an operating loss for the six months ended June 30, 2020.

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

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. For 2018, we had an adjusted net profit of RMB295.8 million, and our adjusted net profit margin, adjusted return on assets, and adjusted return on equity for 2018 were 10.8%, 2.4%, and 13.7%, respectively. For 2019, we had an adjusted net profit of RMB368.2 million, and our adjusted net profit margin, adjusted return on assets, and adjusted return on equity for 2019 were 9.5%, 2.8%, and 12.5%, respectively. For the six months ended June 30, 2020, we had an adjusted net loss of RMB1.0 billion, and our adjusted net profit margin, adjusted return on assets, and adjusted return on equity for the period were negative 86.6%, negative 8.7% and negative 40.4%, respectively. For the three months ended September 30, 2020, we had an adjusted net profit of RMB109.7 million, and our adjusted net profit margin, adjusted return on assets, and adjusted return on equity for the period were 15.1%, 1.2% and 5.2%, respectively.

CONTRACTUAL OBLIGATIONS

Operating Lease Commitments

During the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, 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,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
No later than 1 year	48,099	46,963	16,445	27,553	26,744
Later than 1 year and no later than 2 years	29,869	17,140	9,280	24,195	22,700
Later than 2 years	6,858	12,216	1,587	12,898	7,842
Total	**84,826**	**76,319**	**27,312**	**64,646**	**57,286**

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of September 30, 2020, we did 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 or affiliates of the foregoing. See “Related Party Transactions”.

Amount Due from Related Parties

As of December 31, 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, the amount due from our related parties, which was of non-trade nature, was RMB142.5 million, nil, nil, nil and nil, respectively.

Amount Due to Related Parties

As of December 31, 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, the amount due to our related parties, which was of non-trade nature, was RMB2.4 million, RMB0.8 million, nil, nil and nil, respectively.

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 September 30, 2020, 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.

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.

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 our major operations during the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020 were within China, we present our financial statements 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 respect of the 2021 Notes which are denominated in U.S. dollars.

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. In conducting a sensitivity analysis, 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.

DISTRIBUTABLE RESERVES

As of September 30, 2020, we did not have any distributable reserves.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this offering memorandum, there has been no material adverse change in our financial or trading position since September 30, 2020 and there is no event since September 30, 2020 that would materially affect the information shown in our consolidated financial statements included elsewhere in this offering memorandum.

We are a leading independent online consumer finance service provider in China. We offer consumer finance products by facilitating transactions between borrowers and traditional financial institutions, and, to a lesser extent, we also lend directly to borrowers primarily through our online small loan companies. We have established two small loan companies in Chengdu and Shanghai that are permitted to conduct online and offline small loan business. Furthermore, we have a financing guarantee company in Hangzhou that provides financing guarantee services related to the loans funded by the financial institutions under credit-enhanced loan facilitation structure. This section sets forth a summary of the most significant rules and regulations that affect our business and the industry in which we operate.

Regulations Relating to Loans and the Interest Rate

The PRC Contract Law (《中華人民共和國合同法》), which became effective in October 1999, or the Contract Law, governs the formation, validity, performance, enforcement and assignment of contracts. The Contract Law requires that the interest rates charged under a loan agreement must not violate the applicable provisions of the PRC laws and regulations. In accordance with the Provisions on Certain Issues of the Application of Laws in the Trial of Private Lending Cases issued by the PRC Supreme People's Court (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) in August 2015 and effective since September 2015 and amended in August 2020, or the Private Lending Judicial Interpretations, private lending is defined as financing between individuals, legal entities and other organizations.

The Private Lending Judicial Interpretations issued in August 2015 provide that agreements between a lender and a borrower for loans with interest rates below 24% per annum are valid and enforceable. With respect to loans with interest rates between 24% per annum and 36% per annum, if the interest on the loans has already been paid to the lender, and so long as such payment does not conflict with the interests of the state, the community or any third parties, the court will likely dismiss the borrower's request to demand the return of the interest payment above 24% per annum. If the interest rate of a loan is higher than 36% per annum, the agreement on that portion of the interest exceeding the maximum interest rate is invalid, and if the borrower requests the lender to return that portion of interest exceeding 36% per annum that has been paid, the court will support such requests. The Certain Opinions Regarding Further Strengthening the Financial Judgment Work (《關於進一步加強金融審判工作的若干意見》) issued by the PRC Supreme People's Court in August 2017 further emphasize that if the total amount of interest, compounded interest, default interest and other fees charged by a lender under a loan contract substantially exceeds the actual loss of such lender, then the request by the debtor under such loan contract to reduce or to adjust the part of the aforementioned fees exceeding the amount accrued at an annual rate of 24% will be upheld.

On July 22, 2020, the Supreme People's Court and the National Development and Reform Commission, or the NDRC, jointly released the Opinions on Providing Judicial Services and Safeguards for Accelerating the Improvement of the Socialist Market Economic System for the New Era (《最高人民法院國家發展和改革委員會關於為新時代加快完善社會主義市場經濟體制提供司法服務和保障的意見》), or the Opinions. The Opinions set out that if the interest and fees, including interest, compound interest, penalty interest, liquidated damages and other fees, claimed by one party to the loan contract exceed the upper limit under judicial protection, the claim will not be supported by the court, and if the parties to the loan disguise the financing cost in an attempt to circumvent the upper limit, the rights and obligations of all parties to the loan will be determined by the actual loan relationship.

On August 20, 2020, the Supreme People's Court issued the Decision on Amending the Provisions of on Certain Issues of the Application of Law in the Trial of Private Lending Cases issued by the Supreme People's Court (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定（（2020年修訂））》), or the Judicial Interpretation Amendment, which amended several provisions of the Private Lending Judicial Interpretations issued in 2015 including the upper limit of judicial protection for private lending interest rates. The Judicial Interpretation Amendment provides that where the lender requests the borrower to pay interest in accordance with the interest rate agreed upon in the agreement, the people's court shall support such request, except where the interest rate agreed by both parties exceeds four times of the one-year Loan Prime Rate at the time of the establishment of the loan agreement. The one-year Loan Prime Rate refers to the one-year loan market quoted interest rate issued by the National Bank Interbank Funding Center which was authorized by the PBOC, on the 20th of each month since August 20, 2019.

Regulations Relating to Online Lending

On July 18, 2015, ten PRC regulatory authorities, including the PBOC, the MIIT and the CBRC, jointly issued the Guidelines on Promoting the Healthy Development of the Internet Finance (《關於促進互聯網金融健康發展的指導意見》), or the Internet Finance Guidelines. The Internet Finance Guidelines define the provision of online small loans as online lending business, which is under the supervision of the CBRC, and governed by the relevant regulations on small loan companies.

On April 12, 2016, the General Office of the PRC State Council issued the Implementing Proposal for the Special Rectification of Internet Financial Risk (《互聯網金融風險專項整治工作實施方案》), which emphasizes the legitimacy and compliance of the Internet finance business, and specifies the rectification measures regarding the internet finance business and the institutions engaged in the internet finance business.

In April 2017, the P2P Online Lending Working Group issued the Notice on the Implementation of Check and Rectification of Cash Loan Business Activities (《關於開展"現金貸"業務活動清理整頓工作的通知》) and a supplementary notice, or the Notices on Cash Loans. The Notices on Cash Loans require that the local branches of the P2P Online Lending Working Group conduct a comprehensive review and inspection of the cash loan business on online lending platforms and require such platforms to take necessary improvement and remediation measures within a specific period of time to comply with the relevant requirements under the applicable PRC laws and regulations. The Notices on Cash Loans aim to eliminating the non-compliance in the operations of online lending platforms, including fraudulent activities, loans with excessive interest rates, and forced loan collection practices.

On December 1, 2017, the Online Finance Working Group and the P2P Online Lending Working Group jointly issued the Notice on Regulation and Rectification of "Cash Loan" Business (《關於規範整頓"現金貸"業務的通知》), or Circular 141, which sets out the principles and general requirements for the conduct of "cash loan" business by online small loan companies, P2P platforms and banking financial institutions (for the purpose of Circular 141, including banks, trust companies and consumer financial companies). Circular 141 focuses on regulating the "cash loans" with certain features, such as lack of (i) specific user cases (which, as we understand the term, refers to scenarios in which a user interacts with a product or service for a specific motivation), (ii) specified uses of loan proceeds, (iii) selected customer base, or (iv) collateral. Circular 141 sets forth several general principles with respect to the regulation of "cash loan" business, including: (i) no organization or individual may conduct the "cash loan" lending business without obtaining relevant approval; (ii) the total borrowing cost of borrowers charged by institutions in the form of interest and various fees should be annualized and subject to the limit on interest rate of private lending provided by the judicial department; (iii) institutions engaged in cash, among others, loan business must follow the "know-your-customer" process and prudentially assess and determine the borrower's suitability, credit limit and cooling-off period, etc.; (iv) all institutions engaged in cash, among others, loan business must enhance their internal risk control and prudentially use the "data-driven" risk management models. Moreover, Circular 141 also sets forth certain specific requirements related to online small loan companies engaged in the cash loan business, please refer to "— Regulations Relating to Small Loan Companies."

In addition, Circular 141 also imposes several requirements on financial institutions engaged in the "cash loan" business, including, among other things: (i) such financial institutions must not extend loans jointly with any entities that have not obtained the approval for the lending business, or provide funding to such entities for them to extend loans; (ii) with respect to the loan business conducted in cooperation with third-party entities, such financial institutions must not outsource their core business function (including the credit assessment and risk control), and must not accept any credit enhancement services, whether or not in a disguised form (including the commitment to taking default risks), provided by any third-party entities that lack the qualification to provide guarantee services; and (iii) such financial institutions must require and ensure that such third-party entities do not charge any interests or fees from the borrowers.

Any violation of Circular 141 may result in penalties, including but not limited to suspensions of operation, orders to make rectification, condemnation, revocations of license, orders to cease business operation, and criminal liabilities.

In August 2018, the P2P Online Lending Working Group issued the Circular on Launching Compliance Inspection of Online Lending Information Intermediaries (《關於開展P2P網絡借貸機構合規檢查工作的通知》), or Circular 63, which requires online lending information intermediaries, local Internet finance associations and competent governmental authorities to conduct and complete respective comprehensive compliance inspection by the end of December 2018. According to Circular 63, the online lending information intermediaries passing such inspection will be qualified for accessing to the information disclosure and product registration system, and may apply for P2P filing after the system having been installed and smoothly run for a certain period of time. However, Circular 63 has not set out a clear schedule of when the P2P filing will be available.

Regulations Relating to Small Loan Companies

Under the Guiding Opinions of the CBRC and the PBOC on the Pilot Operation of Small loan Companies (*《中國銀行業監督管理委員會中國人民銀行關於小額貸款公司試點的指導意見》*) which was promulgated by the CBRC and the PBOC on May 4, 2008, or the Guiding Opinions on Small Loan Companies, a small loan company is a company that is specialized in operating a small loan business with investments from natural persons, legal entities or other social organizations, and which does not accept public deposits. The establishment of a small loan company is subject to the approval of the competent government authority at the provincial level. The major sources of funds for a small loan company are limited to be capital paid by shareholders, donated capital and capital borrowed from up to two financial institutions. Furthermore, the balance of the capital borrowed by a small loan company from financial institutions must not exceed 50% of the net capital of such small loan company, and the interest rate and term of the borrowed capital is required to be determined by the company with the banking financial institutions upon consultation, and the interest rate on the borrowed capital must be determined by using the Shanghai Inter-bank Offered Rate as the base rate. With respect to the grant of credit, small loan companies are required to adhere to the principle of "small sum and decentralization." The outstanding balance of the loans granted by a small loan company to one borrower cannot exceed 5% of the net capital of such company. The interest ceiling used by a small loan company may be determined by such companies but in no circumstance shall they exceed the restrictions prescribed by the judicatory authority, and the interest floor is 0.9 times the base interest rate published by the PBOC. Small loan companies have the flexibility to determine the specific interest rate within the range depending on market conditions. In addition, according to the Guiding Opinions on Small Loan Companies, small loan companies are required to establish and improve their corporate governance structures, the loan management systems, the financial accounting systems, the asset classification systems, the provision systems for accurate asset classification and their information disclosure systems, and such companies are required to make adequate provision for impairment losses and are required to accept public scrutiny supervision and are prohibited from carrying out illegal fund-raising in any form.

The General Office of Shanghai Government promulgated the Regulation on Small Loan Companies in Shanghai (*《上海市小額貸款公司監管辦法》*) on September 23, 2016, which specifies the qualification requirements, the operational requirements, the application and approval procedures and other rules governing small loan companies in Shanghai. On December 16, 2016, Shanghai Finance Service Office issued the Guidelines on the Specific Regulation on the Online Small Loan Business of

On November 28, 2008, the General Office of Sichuan Province promulgated the Notice on Expanding the Pilot Operation of Small Loan Companies (*《四川省人民政府辦公廳關於擴大小額貸款公司試點工作的通知》*) to expand the pilot operation of small loan companies in Sichuan, and issued the Interim Rules on the Regulation of Small Loan Companies in Sichuan (《四川省小額貸款公司管理暫行辦法》), which set out rules and requirements on the establishment, compliance, supervision and risk prevention of small loan companies in Sichuan. Furthermore, in March 2009, Chengdu municipal government promulgated the Pilot Operation Proposals regarding Small Loan Companies in Chengdu (《成都市小額貸款公司試點工作方案》) to regulate the pilot operation of small loan companies in Chengdu and further specify other detailed rules and requirements, among which it is a requirement that the outstanding balance of loans granted by a small loan company to one borrower must not exceed RMB200,000, otherwise the small loan company must report to the competent government authorities.

In November 2017, the Online Finance Working Group issued the Notice on the Immediate Suspension of Approvals for the Establishment of Online Small Loan Companies (《關於立即暫停批設網絡小額貸款公司的通知》), which requires all relevant regulatory authorities of small loan companies to suspend the approval of the establishment of any online small loan companies and the approval of any small loan business conducted across provinces. On December 1, 2017, the Online Finance Working Group and the P2P Online Lending Working Group also jointly issued Circular 141 to reinstate the suspension of approving new online small loan companies and enhance the regulation of online small loan companies, which stipulates that (i) the relevant regulatory authorities must suspend the approval for the establishment of any new online small loan companies and the conduct of offline business of any small loan companies across provinces (districts or cities); (ii) online small loan companies must not extend loans to any borrowers without income, such as students; (iii) online small loan companies must suspend the funding of online small loans with no user cases or specified uses of loan proceeds, and gradually reduce the volume of the existing business relating to such loans and take rectification measures in a period to be specified by authorities; and (iv) small loan companies shall not illegally raise funds or absorb public deposits, the funding source of small loan companies is being strictly regulated.

On December 8, 2017, the P2P Online Lending Working Group promulgated the Notice on Implementation Plan for Specific Rectification for Risks in Small Loan Companies Conducting the Online Small Loan Business (《小額貸款公司網絡小額貸款業務風險專項整治實施方案的通知》), or the Rectification Implementation Plans of Online Small Loan Companies. Pursuant to the Rectification Implementation Plans of Online Small Loan Companies, "online small loans" are defined as small loans provided through the internet by small loan companies controlled by internet companies. Online small loans businesses typically acquires borrowers online, conduct credit assessment based on the online information collected from the specific online scenario, such as customer operation and internet consumption, and process the loan applications, approvals and funding procedures online. Consistent with the Guidance on the Pilot Establishment of Small Loan Companies and Circular 141, the Rectification Implementation Plans of Online Small Loan Companies emphasizes several material aspects for inspection and rectification, which include, (i) the online small loan companies must be approved by the competent authorities in accordance with the applicable regulations promulgated by the State Council, and approved online small loan companies that act in violation of any regulatory requirements must be re-examined; (ii) whether the qualification of online small loan companies are in compliance with the applicable laws and regulations; (iii) whether the "integrated actual interest" (namely the total borrowing cost charged to borrowers in the form of interest and various fees) are annualized and subject to the limit on interest rates of private lending set forth in the Private Lending Judicial Interpretations and, whether any interest, handling fee, management fee or deposit are deducted from the principal of loans provided to the borrowers in advance; (iv) whether campus loans, or online small loans with no specific scenario or designated use of loan proceeds are granted; (v) with respect to the loan business conducted in cooperation with third-party institutions, whether small loan companies cooperate with internet platform without website filing or telecommunications business license to lend online small loan, whether the online small loan companies outsource their core business (including the credit assessment and risk control), or accept any credit enhancement service provided by any third-party institutions with no guarantee qualification; or whether any applicable third-party institution collects any interest or fee from the borrowers; and (vi) whether there are any entities conducting online small loan business without relevant approval or license for lending business. The Rectification Implementation Plans of Online Small Loan Companies also set forth that the local branches of the P2P Online Lending Working Group must complete the inspection and investigation of all related institutions before the end of January 2018. Depending on the results, different measures will be taken before the end of March 2018: (i) for institutions that have obtained online small loan licenses but were found not to meet the qualification requirements to conduct online small loan business, their online small loan licenses must be revoked and such institutions will be prohibited from conducting small loan business outside the administrative jurisdiction of their respective approving authorities; and (ii) for institutions that have obtained online small loan licenses and were found to meet the qualification requirements to conduct online small loan business, if they were found not to be in compliance with other requirements, such as the requirements on the integrated actual interest rate, the scope of loan and cooperation with third-party institutions, such institutions must take rectification measures in a period separately specified by the authorities, and in the event that the rectification does not meet the authorities' requirements, such institutions will be subject to various sanctions, including revocation of license and orders to cease business operation.

On September 7, 2020, the CBIRC issued the Notice on Strengthening the Supervision and Management of small loan Companies (《關於加强小額貸款公司監督管理的通知》), or Circular 86. Circular 86 aims to regulate the operation of small loan companies, prevent and resolve relevant risks, promote the healthy growth of the small loan industry. Circular 86 stipulates the following requirements with respect to the small loan companies, including without limitation: (i) the financing balance of the small loan company funding by bank loans, shareholder loans and other nonstandard financing instruments shall not exceed such company's net assets; (ii) the financing balance of the small loan company funding by issuance of bonds, asset securitization products and other instruments of standardized debt assets shall not exceed four times of its net assets; (iii) the balance of loans offered to one borrower shall not exceed 10% of the net assets of the small loan company, and the balance of loans offered to one borrower and such borrower's related parties shall not exceed 15% of the net assets of the small loan company; (iv) small loan companies are prohibited from upfront deduction of interest, commission fees, management fees or deposits from loans by small loan companies before they are released to the borrowers, and if small loan companies has deducted any upfront fees in violation of rules and regulations, the borrower will only need to repay the actual loan amount after the exclusion of the interests and fees deducted, and the loan's interest rate shall be calculated accordingly; (v) small loan companies shall conduct business in the administrative area at the county level where.

On November 2, 2020, the CBIRC and the PBOC published the draft version of the Interim Administrative Measures for Online Micro-credit Business (《網路小額貸款業務管理暫行辦法（徵求意見稿）》), or the Online Micro-credit Business Interim Measures, adding new requirements on Online Micro-credit Business. In particular, the draft version among other things, strengthen the legal approval, license and access conditions of Online Micro-credit Business. Pursuant to the Online Micro-credit Business Interim Measures, the competent regulator or the banking regulator under the State Council shall, in accordance with the law, issue an online micro-credit business license to a micro-credit company that has been approved to engage in online micro-credit business. The Online Micro-credit Business Interim Measures stipulate the following requirements with respect to the micro-credit company which engages in online micro-credit business, including without limitation, the registered capital of a micro-credit company which engages in online micro-credit business shall not be less than RMB1 billion and shall be one-off paid-up monetary capital, and the registered capital of a micro-credit company which engages in online micro-credit business across provincial-level administrative regions shall not be less than RMB5 billion and shall be one-off paid-up monetary capital. And the Online Micro-credit Business Interim Measures also stipulate that the controlling shareholder of a micro-credit company which engages in online micro-credit business shall have a good financial position and have remained profitable consecutively in the last two fiscal years while having a cumulative total tax payment of not less than RMB12 million (as per the standard of consolidated accounting statement). In addition, according to the Online Micro-credit Business Interim Measures, the same investor, its related parties and persons acting in concert shall not hold shares as major shareholders in more than two micro-credit companies engaging in online micro-credit business across provincial-level administrative regions, or hold the controlling shares in more than one micro-credit company engaging in online micro-credit business across provincial-level administrative regions.

The way that we cooperate with our funding partners is affected by rules and regulations on these partners. On July 12, 2020, the CBIRC issued the Online Lending Measures to provide for the regulatory requirements on the extension of credit by commercial banks via online channels in various aspects. The Online Lending Measures explicitly forbid borrowers from purchasing real property, stocks, bonds, futures, financial derivatives, and asset management products and making other riskier investments with bank loans issued online. In addition, according to the Online Lending Measures, commercial banks should cap online consumer credit lines for each customer at RMB200,000, and the credit extension period should not exceed one year if the principal is repaid in a lump sum upon maturity. Although the Online Lending Measures have not restricted the establishment of uniform quantitative indicators for local commercial banks to carry out cross-regional Internet loan business, commercial banks are required to conduct such business prudently based on their own risk control capability and build a comprehensive risk management system for online lending business.

Regulations Relating to Financing Guarantee

In March 2010, CBRC, the National Development and Reform Commission, or NDRC, MIIT, MOFCOM, PBOC, the State Administration for Industry and Commerce, or SAIC, and the Ministry of Finance of China, or MOF, promulgated the Interim Administrative Measures for Financing Guarantee Companies (《融資性擔保公司管理暫行辦法》). The Interim Administrative Measures for Financing Guarantee Companies define "financing guarantee" as an activity whereby the guarantor and the creditor, such as a banking financial institution, agree that the guarantor must bear the guarantee obligations in the event that the guaranteed party fails to repay its financing debt owed to the creditor, and require an entity or individual to obtain a prior approval from the competent government authority to engage in the financing guarantee business.

In August 2017, the PRC State Council promulgated the Regulations on the Supervision and Administration of Financing Guarantee Companies (《融資擔保公司監督管理條例》), or Financing Guarantee Regulations, which became effective on October 1, 2017. The Financing Guarantee Regulations define "financing guarantee" as an activity whereby the guarantor provides security for the secured party's debt financing such as borrowings and issuance of bonds, and further set out the approval requirements for the establishment of a financing guarantee company or engagement in the financing guarantee business. The Financing Guarantee Regulations also state that the outstanding guarantee liabilities of a financing guarantee company must not exceed ten times its net assets. Moreover, the outstanding guarantee liabilities of a financing guarantee company in respect of the same guaranteed party must not exceed 10% of the net assets of such financing guarantee company, and the outstanding guarantee liabilities of a financing guarantee company in respect of the same guaranteed party together with its affiliated parties must not exceed 15% of its net assets.

In April 2018, CBIRC promulgated the Notice Regarding Issuance of Four Supporting Measures of the Regulations on the Supervision and Administration of Financing Guarantee Companies (《關於印發〈融資擔保公司監督管理條例〉四項配套制度的通知》), which was amended in October 2019. These measures set forth detailed implementation rules under the regulatory framework of Financing Guarantee Regulations, including the administration of the financing guarantee license, the calculation method for outstanding guarantee liabilities, the asset ratio requirements for financing guarantee companies, and the guidance for the cooperation between commercial banks and financing guarantee companies. These measures also stipulated that "Internet lending" is one of the debt financing activities for which the financing guarantee companies could provide guarantee services.

On October 9, 2019, the CBIRC, the NDRC, the MIIT, the Ministry of Commerce the State Administration for Market Regulation and other relevant authority jointly promulgated the Notice on the Promulgation of Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies (《關於印發融資擔保公司監督管理補充規定的通知》), which stipulate that all local regulatory departments shall conduct a comprehensive investigation, and strictly carry out the license supervision of institutions that actually operate financing guarantee business. Institutions that provide customer referrals, credit evaluation and other services to various lending institutions shall not provide or provide financing guarantee services in disguise without approval. For companies actually engage in financing guarantee business without the financing guarantee business operation license, the relevant authority will order them to close down and settle the legacy business properly.

On July 14, 2020, the CBIRC issued the Guidelines for Off-Site Supervision of Financing Guarantee Companies (《中國銀保監會關於印發融資擔保公司非現場監管規程的通知》), or the Off-Site Supervision Guidelines, which took effect on September 1, 2020. The Off-Site Supervision Guidelines stipulate the guidelines for the competent regulatory authorities to continuously analyze and evaluate the risk of financing guarantee companies and the financing guarantee industry, by way of collecting report data and other internal and external data of the financing guarantee companies and by carrying out corresponding measures. Pursuant to the Off-Site Supervision Guidelines, financing guarantee companies shall establish and implement an off-site supervision information report system and submit related data and non-data information in accordance with the requirements of the competent regulatory authorities. The Off-Site Supervision Guidelines note that the corporate governance, internal control, risk management capabilities, guarantee business, associated guarantee risks, asset quality, liquidity indicators and investment conditions of financing guarantee companies shall be the key areas for the off-site supervision.

Regulations Relating to Internet Information Security and Privacy Protection

PRC government authorities have enacted laws and regulations with respect to Internet information security and the protection of personal information from any abuse or unauthorized disclosure. Internet information in China is regulated and restricted from a national security standpoint. The SCNPC enacted the Decisions on Maintaining Internet Security (《全國人民代表大會常務委員會關於維護互聯網安全的決定》) in December 2000, as further amended in August 2009, which impose criminal liabilities on persons or entities that: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security has promulgated measures that prohibit the use of the Internet in ways that would result in the leakage of state secrets or dissemination of socially destabilizing content. If an Internet information service provider violates these measures, the Ministry of Public Security and the local security bureaus may revoke its operating license and shut down its websites.

Under the Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》) issued by the MIIT in December 2011, an Internet information service provider may not collect any user's personal information or provide any such information to third parties without that user's consent and it must expressly inform that user of the method, content and purpose of the collection and processing of such user's personal information and may only collect such information as necessary for the provision of its services. An Internet information service provider is also required to properly maintain the user's personal information, and in case of any leak or possible leak of a user's personal information, the Internet information service provider must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority. In addition, pursuant to the Decision on Strengthening the Protection of Online Information (《全國人民代表大會常務委員會關於加強網絡信息保護的決定》) issued by the SCNPC in December 2012 and the Order for the Protection of Telecommunication and Internet User's Personal Information (《電信和互聯網用戶個人信息保護規定》) issued by the MIIT in July 2013, any collection and use of a user's personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An Internet information service provider must also keep users' personal information strictly confidential, and is further prohibited from divulging, tampering or destroying any such information, or selling or providing such information to other parties. An Internet information service provider is required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss.

The Internet Finance Guidelines, jointly released by ten PRC regulatory agencies in July 2015 purport, among other things, to require Internet finance service providers to improve technical security standards, and safeguard customer and transaction information. The Internet Finance Guidelines also prohibit Internet finance service providers from illegally selling or disclosing customers' personal information. The PBOC and other relevant regulatory authorities must jointly adopt the implementing rules. Pursuant to the Ninth Amendment to the Criminal Law issued by SCNPC effective in November 2015, any Internet service provider that fails to fulfill the obligations related to Internet information security administration as required by applicable laws and refuses to rectify upon administrative orders is subject to criminal penalty as a result of (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of customers' information; (iii) any serious loss of criminal evidence; or (iv) other severe situation. Moreover, any individual or entity that (a) sells or provides personal information to others in a way that violates applicable law, or (b) steals or illegally obtain any personal information, is subject to criminal liabilities in severe situations.

In November 2016, the SCNPC promulgated the PRC Network Security Law (《中華人民共和國網絡安全法》), or the Network Security Law, which took effect on June 1, 2017. The Network Security Law aims to maintain network security, safeguard cyberspace sovereignty, national security and public interests, protect the lawful rights and interests of citizens, legal persons and other organizations. Pursuant to the Network Security Law, a network operator, including without limitation, Internet information service providers, must take technical measures and other necessary measures in accordance with the provisions of applicable laws and regulations as well as the compulsory requirements of the national and industrial standards to safeguard the safe and stable operation of networks, effectively respond to network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality and availability of network data. The Network Security Law has reaffirmed the basic principles and requirements as specified in other existing laws and regulations on personal information protections, such as requirements on the collection, use, processing, storage and disclosure of personal information, and internet service providers being required to take technical and other necessary measures to ensure the security of the personal information they have collected and prevent that personal information from being divulged, damaged or lost. Any violation of the provisions and requirements under the Network Security Law may subject an Internet service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancelation of filings, closedown of websites or even criminal liabilities.

Regulations Relating to Value-added Telecommunication Service

The Telecommunications Regulations (《中華人民共和國電信條例》), originally promulgated by the State Council in 2000 and amended, and its related implementation rules, including the Catalog of Classification of Telecommunications Business (《電信業務分類目錄》) issued by the Ministry of Industry and Information Technology, or the MIIT, categorize various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services. The Administrative Measures on Telecommunications Business Operating Licenses (《電信業務經營許可管

理辦法》), originally promulgated by the MIIT in 2009 and amended in 2017, set forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. Under these regulations, a commercial operator of value-added telecommunications services must obtain a value-added telecommunications service license from the MIIT or its provincial level counterparts.

According to the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), originally issued by the State Council in 2001, foreign-invested value-added telecommunications enterprises must be in the form of sino-foreign equity joint ventures. The regulations restrict the ultimate capital contribution percentage held by foreign investors in a foreign-invested value-added telecommunications enterprise to 50% or less and require the primary foreign-investor in a foreign-invested value-added telecommunications enterprise to have a good track record and operational experience in the value-added telecommunications industry.

In 2006, the Ministry of Information Industry (which was integrated into the MIIT with other governmental departments in 2008) issued the Notice of the Ministry of Information Industry on Strengthening the Administration over Foreign Investment in the Operation of Value-Added Telecommunications Business (《關於加強外商投資經營增值電信業務管理的通知》). According to this notice, a foreign investor in the telecommunications service industry must establish a foreign-invested enterprise and apply for a telecommunications service license. The notice also requires that: (i) PRC domestic telecommunications enterprises must not, through any form, lease, transfer or sell a telecommunications service license to a foreign investor, or provide resources, offices and working places, facilities or other assistance to support illegal telecommunications services operations by a foreign investor; (ii) value-added telecommunications enterprises or their shareholders must directly own the domain names and trademarks used in their daily operations; (iii) each value-added telecommunications enterprise must have the necessary facilities for its approved business operations and maintain such facilities only in the regions covered by its license; and (iv) all value-added telecommunications enterprises are required to maintain network and internet security in accordance with the standards set forth in relevant PRC regulations. If a license holder fails to comply with these requirements and cure any non-compliance, the MIIT or its local counterpart has the discretion to take measures against such license holder, including revoking its value-added telecommunications service license.

Administration of mobile internet application information services is subject to the Regulations for Administration of Mobile Internet Application Information Services (《移動互聯網應用程序信息服務管理規定》), which were issued in June 2016 and became effective in August 2016. These regulations were enacted to regulate mobile application information services, including app providers, app owners, app operators and online app stores. Providers of mobile application information services are required to obtain specified qualifications pursuant to PRC laws and regulations.

Regulations Relating to Anti-money Laundering

The PRC Anti-money Laundering Law (《中華人民共和國反洗錢法》), which became effective in January 2007, sets forth the principal anti-money laundering requirements applicable to financial institutions as well as non-financial institutions with anti-money laundering obligations, including the adoption of precautionary and supervisory measures, establishment of various systems for client identification, retention of clients' identification information and transactions records, and reports on large transactions and suspicious transactions. According to the PRC Anti-money Laundering Law, financial institutions subject to the PRC Anti-money Laundering Law include banks, credit unions, trust investment companies, stock brokerage companies, futures brokerage companies, insurance companies and other financial institutions as listed and published by the PRC State Council, while the list of the non-financial institutions with anti-money laundering obligations will be published by the PRC State Council. The PBOC and other governmental authorities issued a series of administrative rules and regulations to specify the anti-money laundering obligations of financial institutions and certain non-financial institutions, such as payment institutions. However, as of December 31, 2018, the PRC State Council has not promulgated the list of the non-financial institutions with anti-money laundering obligations.

The Internet Finance Guidelines also require Internet finance service providers to comply with certain anti-money laundering requirements, including the establishment of a customer identification program, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. The PBOC will formulate implementing rules to further specify the anti-money laundering obligations of Internet finance service providers.

Regulation Relating to Foreign Investment

The Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) or the Foreign Investment Law, which was promulgated by the National People's Congress On March 15, 2019, and came into effect on January 1, 2020, provides that the foreign investment refers to the investment activities in China carried out directly or indirectly by foreign natural persons, enterprises or other organizations, including the following: (1) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in China alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. The State adopts the management system of pre-establishment national treatment and negative list for foreign investment. The pre-establishment national treatment refers to granting to Foreign Investors and their investments, in the stage of investment access, the treatment no less favorable than that granted to domestic investors and their investments; the negative list refers to special administrative measures for access of foreign investment in specific fields as stipulated by the State. The State will grant national treatment to foreign investments outside the negative list. The negative list will be released by or upon approval of the State Council.

Foreign investment in China is subject to the Catalogue for the Encouraged Investment Industries (2019 Edition) (《鼓勵外商投資產業指導目錄(2019年版)》) issued on June 30, 2019 and effective from July 30, 2019, and the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2020 Edition) (《外商投資准入特別管理措施(負面清單)（2020年版）》) issued on June 23, 2020 and effective from July 23, 2020, which together comprise the encouraged foreign-invested industries catalogue and the special administrative measures for the access of foreign investments to the restricted or the prohibited foreign-invested industries.

Regulations Relating to Intellectual Property Rights

Copyright and Software Products

The SCNPC adopted the PRC Copyright Law (《中華人民共和國著作權法》) in September 1990 and amended it in October 2001 and February 2010, respectively. The amended PRC Copyright Law extends copyright protection to internet activities, products disseminated over the internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

In order to further implement the Computer Software Protection Regulations (《計算機軟件保護條例》) promulgated by the State Council on December 20, 2001 and amended on January 30, 2013, the State Copyright Bureau issued the Computer Software Copyright Registration Procedures (《計算機軟件著作權登記辦法》) on February 20, 2002, which apply to software copyright registration, license contract registration and transfer contract registration.

Trademarks

Trademarks are protected by the PRC Trademark Law (《中華人民共和國商標法》), which was adopted in August 1982 and latest amended in November 2019 as well as the Implementation Regulation of the PRC Trademark Law (《中華人民共和國商標法實施條例》) adopted by the PRC State Council in 2002 and amended on April 29, 2014. The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks and another ten years if requested upon expiry of the first or any renewed ten-year term. Trademark license agreements must be filed with the Trademark Office for record. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use. Trademark license agreements should be filed with the Trademark Office or its regional offices.

Domain Name

Internet domain name registration and related matters are primarily regulated by the Measures on Administration of Domain Names for the Chinese Internet (《中國互聯網域名管理辦法》), issued by MIIT on November 5, 2004 and effective as of December 20, 2004 which was replaced by the Measures on Administration of Internet Domain Names (《互聯網域名管理辦法》) issued by MIIT as of November 1, 2017, and the Implementing Rules on Registration of Domain Names (《中國互聯網信息中心域名註冊實施細則》) issued by China Internet Network Information Center on May 28, 2012, which became effective on May 29, 2012. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration.

Regulations Relating to Employment

Pursuant to the PRC Labor Law (《中華人民共和國勞動法》), the PRC Labor Contract Law (《中華人民共和國勞動合同法》) and the Implementing Regulations of the PRC Labor Contracts Law (《中華人民共和國勞動合同法實施條例》), labor relationships between employers and employees must be executed in written form. Wages may not be lower than the local minimum wage. Employers must establish a system for labor safety and sanitation, strictly abide by state standards and provide relevant education to its employees. Employees are also required to work in safe and sanitary conditions.

According to the PRC Social Insurance Law (《中華人民共和國社會保險法》) promulgated by the SCNPC and effective from July 1, 2011 and amended on December 29, 2018, the Regulation of Insurance for Work-Related Injury (《工傷保險條例》), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), Regulation of Unemployment Insurance (《失業保險條例》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), an employer is required to contribute social insurance for its employees in the PRC, including basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and injury insurance. Under the Regulations on the Administration of Housing Funds (《住房公積金管理條例》), promulgated by the State Council on April 3, 1999 and as amended on March 24, 2002 and March 24, 2019, an employer is required to make contributions to a housing fund for its employees.

Regulations Relating to Foreign Exchange

Regulations on Foreign Currency Exchange

Pursuant to the Foreign Exchange Administration Regulations (《外匯管理條列》), as amended on August 5, 2008, the Renminbi is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless prior approval is obtained from SAFE and prior registration with the SAFE is made.

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular 19 on March 30, 2015. The SAFE further promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《關於改革和規範資本項目結匯管理政策的通知》), or SAFE Circular 16, effective on June 9, 2016, which, among other things, amended certain provisions of Circular 19. According to SAFE Circular 19 and SAFE Circular 16, the flow and use of the Renminbi capital converted from foreign currency denominated registered capital of a foreign-invested company is regulated such that Renminbi capital may not be used for business beyond its business scope or to provide loans to persons other than affiliates unless otherwise permitted under its business scope. Violations of SAFE Circular 19 or SAFE Circular 16 could result in administrative penalties.

From 2012, SAFE has promulgated several circulars to substantially amend and simplify the current foreign exchange procedure. Pursuant to these circulars, the opening of various special purpose foreign exchange accounts, the reinvestment of Renminbi proceeds by foreign investors in the PRC and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE. In addition, domestic companies are allowed to provide cross-border loans not only to their offshore subsidiaries, but also to their offshore parents and affiliates. SAFE also promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents (《關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的規定》) in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC must be conducted by way of registration and banks must process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches. In February 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的規定》), or SAFE Circular 13, which took effect on June 1, 2015. SAFE Circular 13 delegates the power to enforce the foreign exchange registration in connection with inbound and outbound direct investments under relevant SAFE rules from local branches of SAFE to banks, thereby further simplifying the foreign exchange registration procedures for inbound and outbound direct investments.

On January 26, 2017, SAFE issued the Notice on Improving the Check of Authenticity and Compliance to Further Promote Foreign Exchange Control (《關於進一步推進外匯管理改革完善真實合規性審核的通知》), or SAFE Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks must check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities must hold income to account for previous years' losses before remitting the profits. Moreover, pursuant to SAFE Circular 3, domestic entities must make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

Regulations Relating to Stock Incentive Plans

In February 2012, SAFE promulgated the Notice on Foreign Exchange Administration of PRC Residents Participating in Share Incentive Plans of Offshore Listed Companies (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), or the Stock Option Rules, replacing the previous rules issued by SAFE in March 2007. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly-listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated on July 4, 2014 provides that PRC residents who participate in a share incentive plan of an overseas unlisted special purpose company may register with SAFE or its local branches before exercising such rights.

Regulations Relating to Dividend Distribution

The principal regulations governing distribution of dividends of foreign-invested enterprises include the PRC Company Law, the Foreign Investment Law of the PRC and its Implementing Regulations. Under these laws and regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises.

Regulations Relating to Taxation

Enterprise Income Tax

Under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), or the EIT Law, which became effective on January 1, 2008 and amended on February 24, 2017, and its implementing rules, enterprises are classified as resident enterprises and non-resident enterprises. PRC resident enterprises typically pay enterprise income tax at the rate of 25%, while non-PRC resident enterprises without any branches in the PRC pay an enterprise income tax in connection with their income from the PRC at the tax rate of 10%. An enterprise established outside of the PRC with its "de facto management bodies" located within the PRC is considered a "resident enterprise," meaning that it can be treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define a de facto management body as a managing body that in practice exercises "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise.

The EIT Law and the implementation rules provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are "non-resident enterprises," and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent that such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and other jurisdictions. Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷稅漏稅的安排》), or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under the Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment Meanwhile, the Announcement of the State Administration of Taxation on Certain Issues Concerning the "Beneficial Owners" in the Tax Treaties (《國家稅務總局關於稅收協定中"受益所有人"有關問題的公告》), promulgated by the SAT on February 3, 2018, and came into effective on April 1, 2018, has further stipulated certain announcements for the determination of "beneficial owner".

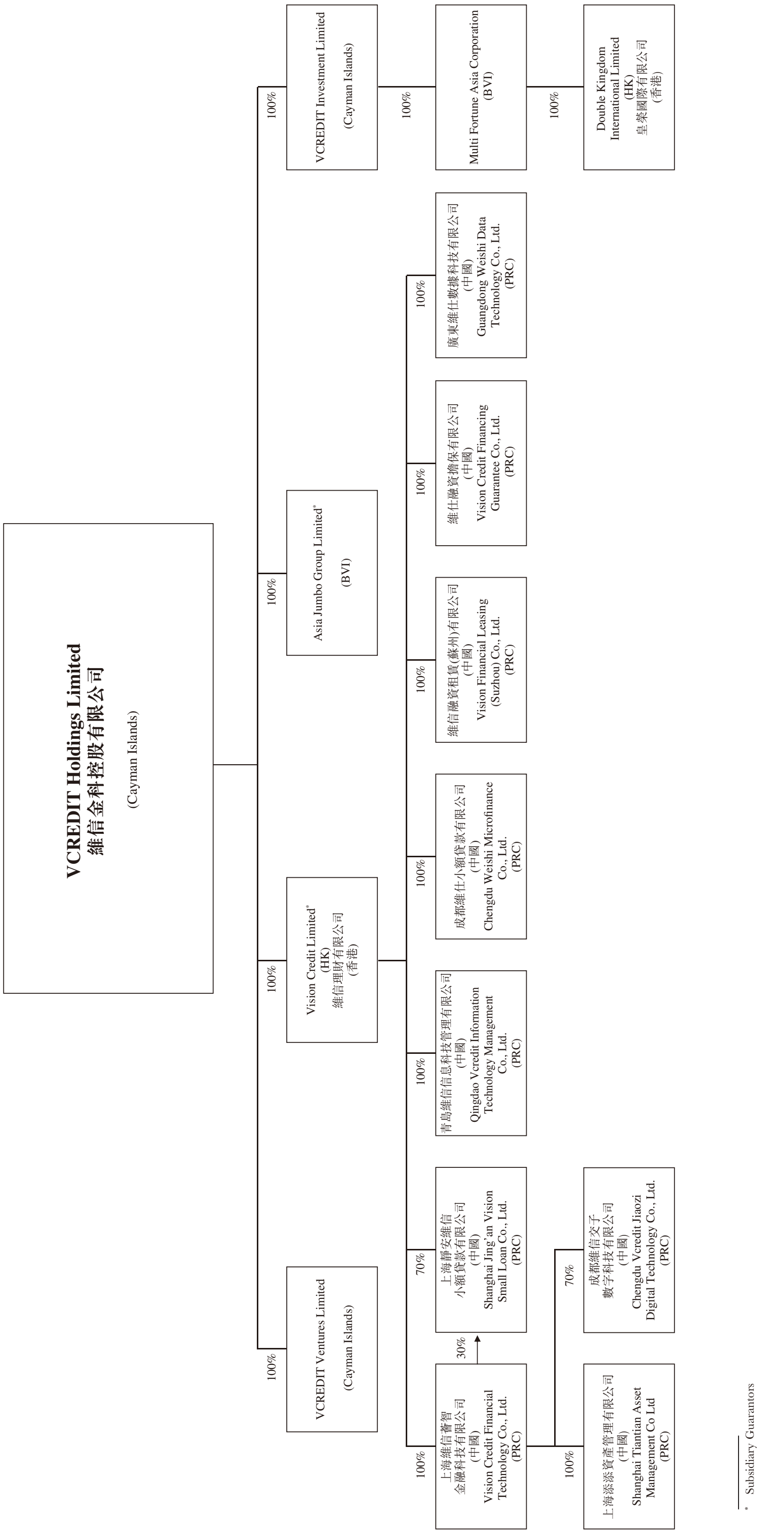
Value-Added Tax

According to the Provisional Regulations on Value-added Tax (《增值稅暫行條例》), which were promulgated by the PRC State Council on December 13, 1993 and were amended in November 2008, February 2016 and November 2017, and the Implementing Rules of the Provisional Regulations on Value-added Tax (《增值稅暫行條例實施細則》), which were promulgated by the MOF on December 18, 2008 and subsequently amended by the MOF and the SAT on October 28, 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC must pay value-added tax under a rate of 17%.

On April 4, 2018, the Circular of the MOF and the SAT on Adjusting Value-Added Tax Rates (《關於調整增值稅稅率的通知》) was promulgated, pursuant to which the VAT rate of gross proceeds from sales and importation of goods and provision of services were adjusted to 16%. On March 20, 2019, the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) was jointly promulgated by the MOF, the SAT and the General Administration of Customs, which further provides that, effective from the date of April 1, 2019, the VAT rate of gross proceeds from sales and importation of goods and provision of services shall be adjusted from 16% to 13%.

CORPORATE STRUCTURE

The following diagram illustrates our corporate structure as of the date of this offering memorandum.



List of Group Entities in Our Corporate Structure

English name of entity	Chinese name of entity	Place of incorporation/ registration
VCREDIT Holdings Limited	維信金科控股有限公司	Cayman Islands
VCREDIT Ventures Limited	N/A	Cayman Islands
VCREDIT Investment Limited	N/A	Cayman Islands
Vision Credit Limited	維信理財有限公司	Hong Kong
Double Kingdom International Limited	皇榮國際有限公司	Hong Kong
Asia Jumbo Group Limited	N/A	BVI
Multi Fortune Asia Corporation	N/A	BVI
Vision Credit Financial Technology Co., Ltd.*	上海維信薈智金融科技有限公司	PRC
Vision Credit Financing Guarantee Co., Ltd.*	維仕融資擔保有限公司	PRC
Qingdao Vcredit Information Technology Management Co., Ltd.*	青島維信信息科技管理有限公司	PRC
Chengdu Weishi Microfinance Co., Ltd. *	成都維仕小額貸款有限公司	PRC
Vision Financial Leasing (Suzhou) Co., Ltd.*	維信融資租賃(蘇州)有限公司	PRC
Shanghai Jing'an Vision Small Loan Co., Ltd.*	上海靜安維信小額貸款有限公司	PRC
Guangdong Weishi Data Technology Co., Ltd.*	廣東維仕數據科技有限公司	PRC
Shanghai Tiantian Asset Management Co., Ltd.*	上海添添資產管理有限公司	PRC
Chengdu Vcredit Jiaozi Digital Technology Co., Ltd.*	成都維信交子數字科技有限公司	PRC

* *English names of entities incorporated in China provided for information purposes only*

OVERVIEW

We are a leading independent online consumer finance service provider in China. 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, to a lesser extent, we directly lend to borrowers. For the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, we originated RMB24.5 billion, RMB20.8 billion, RMB33.7 billion, RMB13.3 billion and RMB8.7 billion of loans, respectively. Following our initial public offering, our shares have been listed on the main board of the SEHK since June 21, 2018 under stock code 02003, and our market capitalization was approximately HK$1.8 billion (US$0.2 billion) as of October 30, 2020.

Some of our defining characteristics that we believe are critical to our success include:

- focus on borrowers with income and existing official credit records;
- centered on "credit-plus-alternative" data;
- effective risk-based pricing capabilities;
- sustainable, license-driven business model; and
- long-standing funding partnerships with licensed financial institutions.

We have developed a range of multi-dimensional scorecards for credit risk quantification, primarily based on our analytics of consumer credit data from the CCRC, which maintains China's national commercial and consumer credit reporting system. We supplement our analytics of credit data with analytics of alternative data aggregated from a wide variety of sources to further strengthen our scorecards. We offer tailored credit products based on borrower risk profiles and user cases where credit is needed, and have accumulated a wealth of industry know-how and experience that have been tested at different stages of the economic cycle. We believe that a tailored credit product offering is the most sustainable way to serve our users, maintain and advance our position in China's growing online consumer finance market, and manage our credit risk exposure.

Consistent with our business approach, we target prime and near-prime borrowers who typically have bank accounts (which we rely on for future income prediction) and credit cards (which we rely on for credit record checks) but are under-served by traditional financial institutions. We identify target borrowers who satisfy our pre-determined credit thresholds primarily based on our direct, real-time, and officially authorized read-and-write access to the CCRC consumer credit database of approximately 900.0 million consumers as of September 30, 2020. As of September 30, 2020, we had 93.1 million registered users, of which 66.4 million had their identities verified by us. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we provided credit products to approximately 5.0 million borrowers in approximately 11.3 million loan transactions. As consumer credit penetration and credit infrastructure coverage further develop in China's fast-growing online consumer finance market, we believe that our addressable core market will continue expanding.

We continue strengthening our granular risk-based pricing capabilities to support our tailored credit product offerings and expand our user base. 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. For a discussion of *Hummingbird*'s capabilities and its core engines, see "— Proprietary Technology — Hummingbird." Our debt-to-income ratio assessment process uses predictive models to predict a borrower's future income amounts, and checks the borrower's other liabilities to determine the appropriate credit limit for us to grant the borrower. We perform credit risk quantification through scorecards, or essentially credit scoring models, which are a type of models specifically designed to quantify credit risk with scores. Our debt-to-income ratio assessment and credit risk quantification form the basis of our granular risk-based pricing for each borrower. Many of our competitors use a binary approve-or-reject decisioning approach, which offers the same price to all approved borrowers and sets a relatively high rejection threshold to exclude marginally creditworthy applicants. In contrast, our granular risk-based pricing capabilities enable us to offer differentiated prices based on approved borrowers' risk profiles, which allows us to attract more price sensitive prime and near-prime borrowers, who are under-served by traditional financial institutions and lack competitively priced alternative financing solutions. As a result, we believe that we can efficiently approach prospective borrowers in our target market segment. Moreover, our granular risk-based pricing capabilities provide us with greater flexibility to adapt to changes in market and credit conditions.

We collaborate with a wide variety of business partners in joint modeling and precision marketing to enhance our data analytics and credit decisioning capabilities. We collaborate on joint modeling programs with several Chinese Internet technology conglomerates that have massive volumes of alternative data and desire to improve the effectiveness of their credit scoring models. In these collaborations, we (i) bring our proprietary industry know-how and a general portrait of our borrowers, (ii) examine the effective variables previously used by our business partners' credit scoring models (as opposed to outputs such as standardized reports or credit scores), (iii) compile and test customized credit scoring models specifically tailored to the user cases that we jointly determine with our business partners, and (iv) periodically re-examine and update the jointly developed credit scoring models to maintain their effectiveness. As we get regular access to the effective variables of our business partners' credit scoring models and work together to develop and maintain customized credit scoring models, our collaborations with our business partners allow us to expand our experience in designing and selecting different types of effective variables under different user cases and enhance our overall modeling capabilities. We believe that these joint credit modeling programs foster trust with our business partners for ongoing and deeper cooperation. Our close relationships with our business partners demonstrate their recognition of our capabilities in developing and customizing credit scoring models. We also carry out precision marketing programs with several leaders in various Chinese Internet industries that have readily identifiable user cases for consumer finance services. For a discussion of our collaboration with business partners and a case study on our most comprehensive collaboration with one of our business partners, see the sections headed "— Our Products and Services — Collaboration with Business Partners" and "— Case Studies — Collaboration with Du Xiaoman Financial."

We primarily offer two lines of credit products: credit card balance transfer products and consumption credit products, both of which are installment-based. We have developed these products based on our knowledge of China's evolving online consumer finance market, and they can be tailored to the individual needs and different credit profiles of borrowers according to our multi-dimensional scorecards.

- *Credit card balance transfer products*. Our credit card balance transfer products bridge the credit card holders' short-term liquidity management needs by (i) allowing them to transfer the outstanding balances of their credit cards to our installment credit products and (ii) paying off the outstanding balances of their credit cards by directly remitting funds to the relevant credit card accounts.

- *Consumption credit products*. Our consumption credit products provide consumers with a variety of installment credit solutions tailored for specific user cases. We collaborate with our business partners in understanding consumers' needs and design scorecards tailored for specific user cases, such as shopping with online retailers and marketplaces, booking with online travel agencies, spending on online entertainment, socializing in online communities, and paying for bills and additional services for mobile telecommunications service providers.

During the years ended 2017 and 2018, we also provided online-to-offline credit products. On October 10, 2018, we entered into an agreement to dispose of the subsidiary that operated our online-to-offline business platform and the disposal was completed on December 31, 2018. Following the disposal, we no longer operate the online-to-offline business platform, but we believe that we continue to serve the need of substantially the same group of borrowers through our credit card balance transfer products and consumption credit products.

We have formed and maintain long-standing relationships with licensed financial institutions as our funding partners. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, over 99% of the loans originated by us were granted by our small loan companies or funded by or structured through licensed financial institutions, including primarily banks and trust companies, and as of September 30, 2020 for the products we offered this percentage was 100%. We believe that our relationships with our funding partners are mutually beneficial. We provide our funding partners with tailored solutions at varying levels of risk discretion that they can use to alter their risk and return profile into under-served prime and near-prime borrowers, which they may be unable to otherwise reach through traditional products or business models. For strategically important funding partners, we also help them enhance their risk management systems by using our credit assessment technologies.

Our funding structures primarily include direct lending, trust lending (where a trust plan set up by a trust company lends the money and we subscribe to a subordinated tranche of the trust plan and guarantee the loans lent by the trust plan), credit-enhanced loan facilitation (where we guarantee the loans that we facilitate), and pure loan facilitation (where we neither fund nor guarantee the loans that we facilitate). We participate in all of our funding structures in a sustainable and scalable manner by leveraging funds from or structured through our funding partners, selectively allocating our own funds, or providing full or partial loan guarantee. Since 2017, we have been further promoting our pure loan facilitation structure to develop toward a less capital intensive business model. Under this structure, loans originated by us are neither funded with our own capital nor guaranteed by us, and the relevant funding partners take more active roles in lending execution and risk and liability management. For the nine months ended September 30, 2020, our direct lending, trust lending, credit-enhanced loan facilitation, and pure loan facilitation structures accounted for approximately 0.5%, 35.0%, 63.9%, and 0.6% of our total loan origination volume, respectively.

Our total income was RMB2.7 billion, RMB2.7 billion, RMB3.9 billion, RMB1.2 billion and RMB0.7 billion for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively. We recorded operating profit of RMB347.4 million, RMB101.6 million, RMB154.4 million for the years ended 2017, 2018 and 2019, respectively, operating loss of RMB1.3 billion for the six months ended June 30, 2020 and operating profit of RMB0.1 billion for the three months ended September 30, 2020. We recorded net loss of RMB1.0 billion, net loss of RMB1.0 billion, net profit of RMB64.8 million, net loss of RMB1.1 billion and net profit of RMB90.4 million for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020, respectively. Excluding the impact of fair value loss of our Preferred Shares and share-based compensation expenses, we had adjusted net profit of RMB292.5 million, RMB295.8 million, adjusted net profit of RMB368.2 million, adjusted net loss of RMB1.0 billion and adjusted net profit of RMB109.7 million for the years ended 2017, 2018 and 2019, the six months ended June 30, 2020 and the three months ended September 30, 2020. For further details of our adjusted net profit/(loss), see the sections headed "Financial Information — Consolidated Income Statement" and "Financial Information — Non-IFRS Measures."

RECENT DEVELOPMENTS

COVID-19 Pandemic

The COVID-19 pandemic which began at the end of 2019 has affected millions of individuals and adversely impacted national economies worldwide, including China. Cities in China where we have significant operations imposed travel restrictions in an effort to curb the spread of COVID-19 which is highly infectious. The outbreak of the COVID-19 pandemic and the subsequent measures taken to restrict its spread among the population, such as social distancing and lockdown, have constrained the lives of all and severely affected the business activities and economic outlook, with no exceptions for the consumer finance sector in China. The COVID-19 pandemic related lockdown and social distancing measures implemented across cities in China caused a slowdown in consumer consumption activities, which in turn weakened credit demand and asset quality. The various levels of interruption and suspension of normal daily activities for a significant part of the first half of 2020 increased the operational challenges of participants in the Chinese consumer finance sector and forced the adoption of more prudent policies to prevent asset quality deterioration and to mitigate increased credit risk. During the six months ended June 30, 2020, our business has been affected by the COVID-19 pandemic outbreak and it has been the principal contributor to our reported loss in our interim results for the period. However, as the impact of the COVID-19 outbreak gradually reduced and our operations began to improve and recover in the second quarter of 2020, we have recorded a profit of RMB90.4 million for the three months ended September 30, 2020, an increase of 96.6% compared to RMB46.0 million for the three months ended September 30, 2019.

The PRC central and local governments have taken various measures to manage COVID-19 cases and reduce potential spread and impact of infection, and further introduced various policies to boost the economy and stimulate the local property markets. Since June 2020, China and some other countries gradually lifted stay-at home orders and began to resume work and school at varying levels and scopes. However, since June 2020 more than 100 new cases have been reported in Beijing and several other provinces. Strict measures in certain locations have been imposed again to curb this potential resurgence. Given the uncertainties as to the development of the outbreak at the moment, it is difficult to predict how long these conditions will persist and the extent to which we may be affected. We cannot assure you that our business, financial condition and results of operations will not be materially and adversely affected. See "Risk Factors — Risks Relating to Our Business and Industry — Our business has been and is likely to continue to be materially adversely affected by the outbreak and resurgence of COVID-19 in China."

Share Repurchase

During the period from July 1, 2020 to October 30, 2020, we repurchased and cancelled 4,917,000 shares on the open market with an aggregate value of approximately HK$21.1 million (US$2.7 million). The repurchase was funded by cash on hand.

Exchange Offer of the 2021 Notes

Concurrent with the offering of the Notes, we are offering to exchange (the "**Exchange Offer**") any and all of our outstanding 2021 Notes for the Notes and soliciting consents from the holders of the 2021 Notes to amend the terms of the indenture that governs the 2021 Notes, upon the terms and subject to the conditions set forth in the exchange offer memorandum, dated November 18, 2020 (the "**Exchange Offer Memorandum**"). The Exchange Offer will expire at 4:00 p.m., London time, on November 25, 2020, unless extended or earlier terminated in our sole discretion.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors.

Leading market position with proven track record and unique market focus

We have a proven operating track record of over 10 years, which helped establish our market leadership today. We condense our extensive industry know-how and insights into our "credit-plus-alternative" data approach and granular risk-based pricing capabilities. To effectively execute these approach and capabilities, we centrally organize our credit assessment and operations, which is evidently demonstrated by our *Hummingbird* system. While we operated primarily as an offline service provider in our early years, our centralized credit assessment and operations have allowed us to substantially complete our transformation into online operations in less than one year, and establish well-recognized brands in China's online consumer finance market, particularly among credit card holders through our *KK Credit* product line. Since our inception, we have experienced varying economic conditions and ongoing regulatory developments, and through these challenges we have proven our ability to adapt our business to manage the challenges when necessary. We believe that our confidence in persistently developing our credit assessment and operations and keeping them centralized since our early years have contributed to our successful transformation and adaptation into an online consumer finance business.

We focus on under-served prime and near-prime borrowers to capture their long-term growth potential. By leveraging our granular risk-based pricing capabilities, we are successful in targeting a subset of these borrowers who satisfy our credit and risk criteria with competitively priced credit products while controlling our credit risk exposure. In addition to providing these borrowers with more financial flexibility, our solutions also provide them with opportunities to build and maintain their credit records.

We believe that our long-term track record, brand recognition, proven adaptability and sustainable business model help foster trust in us among our business partners and our funding partners. This, together with our focus on a highly attractive borrower segment, enables us to carry out our strategies with a long-term perspective.

As of September 30, 2020, we had 93.1 million registered users, of whom 66.4 million had their identities verified by us. As of September 30, 2020, we had originated RMB112.4 billion of loans in approximately 12.7 million loan transactions with our borrowers.

Robust credit risk management capability enhanced by cutting-edge technology

For over a decade, we have developed a robust credit risk management system to control our credit risk exposure throughout the loan cycle. For the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we incurred RMB74.4 million, RMB74.1 million, RMB92.4 million and RMB53.0 million in research and development, to attract and retain technology talent to develop and improve our cutting-edge technology, as well as to acquire advanced software development tools such as model builders and decision-rules management systems. We believe that our technology-based ability to assess, price and manage credit risk is critical to our operations and long-term success.

We are one of the few independent online consumer finance service providers with direct, real-time, and officially authorized read-and-write access to the CCRC consumer credit database, which distinguishes us from our competitors. We have secured this access because we have licensed small loan companies and financing guarantee company that are eligible to apply for access to, and meet with strict assessment criteria of, the CCRC consumer credit database. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we were charged aggregate fees of approximately RMB38.9 million for access to the CCRC consumer credit database. By using credit data from the CCRC, which we believe is the most relevant and timely data for credit assessment, we have maintained the integrity of our credit assessment procedures and enhanced the quality of our credit decisioning. In addition, our direct write-access to the CCRC credit records allows us to provide credit feedback based on the performance of repayment of loans and loan servicing efforts of our borrowers, and also serves as a means to ensure that borrowers take their debt obligations seriously. As a detailed assessment of our data integrity was undertaken by the CCRC before we were granted instant and direct read-and-write access as a non-CBIRC-licensed consumer finance service provider, we believe that our creditability is enhanced and financial institutions are more likely to trust and establish business partnerships with us as a result of this assessment.

Our proprietary core risk management system, *Hummingbird*, applies big data and machine learning technologies to analyze credit data and alternative data and had over 125 unique scorecards as of September 30, 2020. This scorecard-oriented modeling capability is the foundation of our credit risk management system because it makes granular risk-based pricing possible. These technologies enable us to screen prospective borrowers and offer them highly relevant credit products at competitive prices. When faced with a changing economic climate or a rapidly changing regulatory environment, we can leverage our centralized operations to quickly adjust our credit decisioning and pricing parameters. We also continuously sample-test, validate and optimize our scorecards to capture expanding data, changing borrower behavior and market evolvement. This approach is not only essential to maintaining credit risk control but also allows us to maintain high levels of user engagement.

Deep collaboration with business partners delivering valuable data and efficient access to borrowers

We have deep collaborations with our business partners in the areas of joint modeling and precision marketing. For example, we entered into extensive joint modeling programs with a number of leading Chinese Internet technology conglomerates, providing us with access to valuable data types and user cases that are otherwise not commercially available. These programs involve the development of customized scorecards tailored to our partners' user cases, combining valuable data from our partners with our know-how and technology-driven credit scoring modeling capabilities. The additional exposure to our business partners' operations enriches our modeling know-how and scorecard development experience, helping us refine our risk-based pricing and credit decisioning capabilities. This ultimately helps us develop even more tailored credit products for specific borrower groups and gain efficient access to borrowers.

These collaborations are also highly valuable to our business partners, as we provide them with opportunities to increase their commercial traffic and enhance interaction with their target customers. Most of our collaborations require significant commitment and investment of time and resources from our business partners. In addition, we believe that the sustainability of our collaborations is further enhanced by an alignment of economic interests between us and our business partners.

Long-term partnerships with licensed financial institutions providing access to sustainable and scalable funding

We have formed solid long-term partnerships with licensed financial institutions, which we believe trust our prudent business approach, our sustainable business model, and our insight on market development in China's fast-evolving online consumer finance market. Using our trust lending, credit-enhanced loan facilitation, and pure loan facilitation structures, we provide our funding partners with solutions at varying levels of risk discretion and flexible profit sharing arrangements. These arrangements allow them to expand their risk and return profile into under-served prime and near-prime borrowers, which they may otherwise be unable to reach through traditional products or business models. As of September 30, 2020, we partnered with 53 funding partners, including banks, trust companies, and other financial institutions. These sources of diversified and stable funding support the scalability of our business.

Since 2017, we have been further promoting our pure loan facilitation structure to fund our credit products, which allows us to progressively work towards less capital intensive operations. As we expand our use of our pure loan facilitation structure, we expect to develop increasingly immersive partnerships with our funding partners to support the deep integration between, and alignment of, our risk-based pricing capabilities and our funding partners' in-house risk management systems. Through this structure, we are commercializing *Hummingbird* to offer integrated credit risk assessment services to our funding partners. For a discussion of our integrated collaboration efforts with our funding partners, see "— Our Product and Services — Services to Funding Partners." These initiatives are also consistent with the recent PRC regulatory trend requiring financial institutions to assume greater risk management obligations in lending. We believe this lending structure creates mutual benefits in terms of proactive risk management for our funding partners and capital efficiency for us.

Experienced management team with structured talent acquisition

We benefit from the rich experience of our co-founders and senior management team in the banking and financial services industry. Through our operating history of over a decade, we have cultivated a cohesive corporate culture that respects the credit cycle, understands credit risk, promotes sustainable and prudent growth, and encourages innovation. A majority of our senior management team members had substantial experience in the banking and financial services industry prior to joining us. Imbued with a credit-risk-centric mentality, our senior management team believes that finance is the core of financial technology and that risk management is the core of finance. This mindset is demonstrated by our outstanding business acumen for risk-based pricing and the highest priority that we place on risk management in our operations. We believe that a prudent management style prepares us to succeed through all stages of the economic cycle.

To attract, retain and motivate talent to drive our growth, we have established structured talent acquisition and training programs. We attract specialists in both the financial services and technology industries to develop our strategies and achieve growth milestones. We also recruit young talent through our carefully organized management trainee program, and we encourage home-grown talent with systematic training programs. Our junior employees have rotation opportunities within our organization and are typically given responsibilities early. We are confident in building upon the successes that we have achieved so far and further enhancing our leading position in China's rapidly growing online consumer finance market.

OUR STRATEGIES

We will execute the following strategies to further expand our business.

Continue to carry out our technology-driven strategy to improve our risk management capabilities

The core building block of our business is our risk-based pricing capabilities. We intend to continuously build on our substantial know-how in data processing, variable deducing, feature engineering and scorecard development to strengthen our risk-based pricing capabilities. To maintain our leading position in data analytics, we will continue to invest in both the advancement of our data technology and our acquisition of data analytics professionals. Leveraging our advanced risk-based pricing capabilities, we will offer commercial risk control and credit assessment services, initially to our funding partners, in connection with our pure loan facilitation funding structure. For a discussion of our data analytics and risk-based pricing capabilities, see "— Proprietary Technology — Hummingbird."

We intend to strengthen our "credit-plus-alternative" data approach to strategically place us in a unique position to collaborate with financial institutions while maintaining our advantages over our competitors. Although financial institutions are proficient in using the CCRC credit database in their operations, they have limited flexibility in granting and pricing credit due to their lack of ability in applying alternative data analytics. Our competitors generally have abundant amount of alternative data, but only a few of them have the direct, real-time, and officially authorized read-and-write access to the CCRC consumer credit database to conduct orthodox credit assessments. Since we have a level of access to the CCRC consumer credit database similar to that of financial institutions and we also have robust alternative data analytics capabilities, our collaborations with funding partners and business partners can be mutually beneficial. While maintaining our focus on CCRC credit data, we will also continue to expand our access to alternative data to supplement our credit data as well as to retain cross-check redundancy to maintain the integrity of our alternative data.

We will deepen our collaboration with our business partners in joint modeling and precision marketing. These collaborations will continue to be structured on a long-term, profit-sharing basis, with sufficient mutual incentives so that we can continue our periodic re-examination and update of jointly developed credit scoring models to maintain their effectiveness.

As we develop deeper experience in handling effective variables and feature engineering, we intend to increase the dimensions of our scorecard inventory. The scorecards we develop are the cornerstone of our risk-based pricing capabilities, and increasing the diversity and dimensions of our scorecards helps us to further improve the accuracy of our risk-based pricing capabilities.

Strengthen compliance under changing regulatory environment

With regulatory scrutiny increasing, the Chinese consumer credit market has seen further consolidation with more P2P platform collapses, restrictions imposed on certain debt collection practices and use of personal information and data and a flight by market participants to institutional funding. We plan to strengthen our regulatory compliance practices and increase our cooperation with institutional funding partners in order to adapt to the constantly changing regulatory environment of the Chinese consumer credit market. We believe our compliance-centric business model and our cooperation with institutional funding partners allow us to be well positioned to deal with future regulatory challenges.

Take further action on costs in response to the weaker revenue environment, continue on-going cost saving initiatives and reduce operating expenses

We strive to reduce our costs and operating expenses in this challenging environment by continuously pursuing efficiency enhancement and cost control. As part of our ongoing strategy, we intend to take further action to reduce our cost and operating expenses by further refining our credit policies and optimize our procedures for identifying prime borrowers. In light of the effects of COVID-19, we have adapted our business to face the resulting challenges by exercising greater caution over loan origination and focus our lending business on prime borrowers. While we invested more resources in the first half of 2020 to strengthen our loan collection efforts as a result of COVID-19, we believe that the experience we have gained and the gradual recovery of the economy in China will allow us to implement more refined credit policies and reduce our cost and operating expenses for our loan collection efforts. Starting in the first half of 2020, we have also began steering away from near-prime borrowers and focusing on lending to prime borrowers. We believe that such initiatives will allow us to further reduce our costs and operating expenses.

Foster relationships with financial institutions to export our advantages in technologies

As of September 30, 2020, we had cooperations with 73 licensed institutions in various aspects of our consumer finance business including trust lending, credit enhancement and loan facilitation. We intend to continue to expand our partnerships with licensed financial institutions in order to keep updated with the changing technological demands, developments and requirements. Our existing funding partners value our core capabilities in customer acquisition and complementary risk assessment.

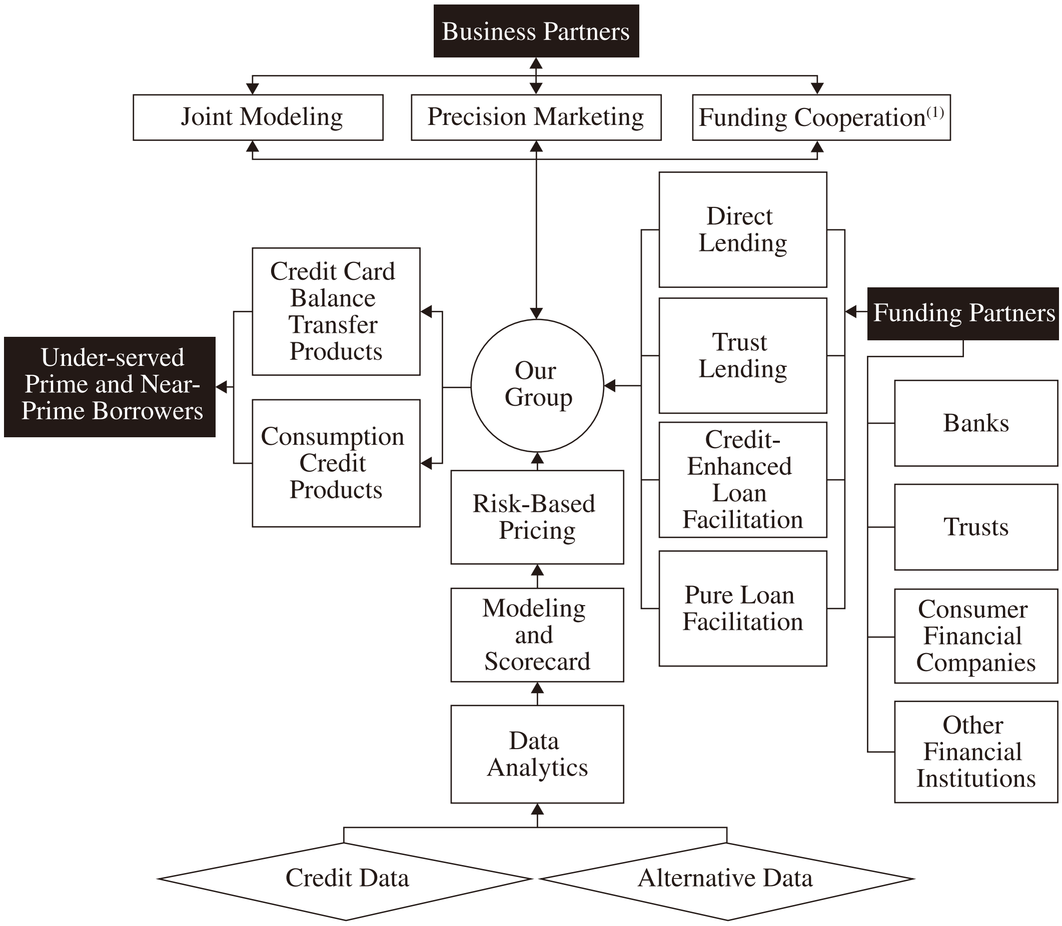
We believe that our long-standing track record of working with licensed financial institutions enables us to maintain a business setup that remains up-to-date with regulatory and technological changes and challenges. By continuing to cooperate with more institutional funding partners with diverse backgrounds, we believe we will be able to maintain sustainability, growth and expansion of our business.

Enhance our cooperation structure with funding partners to optimize our cash flow

We will strengthen our cooperation structure with our funding partners to ensure the scalability, stability and sustainability of our funding as well as optimize our cash flow. We intend to incentivize our funding partners to utilize our credit assessment technology and select suitable funding structures. Meanwhile, we will actively diversify our institutional funding partners beyond banks and other financial institutions. We will continue to empower our funding partners' risk management systems with our proprietary credit assessment technology. By demonstrating our advanced risk-based pricing capabilities, we will work to convince more of our funding partners to adopt the pure loan facilitation structure, under which we do not fund loans with our capital or provide a loan guarantee. We will also explore other innovative funding structures within the PRC regulatory framework to work towards a less capital intensive operation and an optimized cash flow.

OUR BUSINESS APPROACH

We build and expand our online consumer finance business upon our belief that finance is the core of financial technology and that risk management is the core of finance. We use a "credit-plus-alternative" data approach to establish and develop our granular risk-based pricing capabilities. Leveraging these capabilities, we envision serving a subset of the general borrower population to maintain a controlled level of credit risk exposure and maximize profit opportunities. Through this approach, we identify under-served prime and near-prime borrowers as our target borrower base. Within this target borrower base, we develop multi-dimensional scorecards to offer credit products tailored to specific subsets of these borrowers that demonstrate features we can apply to quantify credit risk. We match the funding needs for these products primarily by engaging our funding partners through sustainable and scalable funding structures. We have developed these funding structures in reliance on our granular risk-based pricing capabilities to ensure that the connections between our target borrowers and our funding partners are aligned with our credit risk management. In addition to our funding partners, our business partners have become increasingly important to maintaining the effectiveness of our scorecards and expanding our reach to target borrowers. At the same time, we believe that we have become increasingly attractive to our business partners for collaborations in joint modeling, precision marketing and pursuing other consumer finance-focused opportunities. At the center of the online consumer finance value chain, we provide efficient solutions to address the credit needs of under-served prime and near-prime borrowers, enable our funding partners to alter their risk-and-yield profile to these borrowers, and optimize the effectiveness of scorecards by collaborating with our business partners.



Note:

(1) As of September 30, 2020, none of our collaborations with our business partners involved any funding cooperation. We have been exploring opportunities of funding cooperation with Du Xiaoman Financial. For further details, see "— Case Studies — Collaboration with Du Xiaoman Financial."

We envision long-term relationships with each category of participants in our business through our continuing technological innovation on consumer credit solutions. We offer differentiated value propositions for each category of participants.

- *Value proposition to borrowers*. We target prime and near-prime borrowers who typically have bank accounts and credit cards but are under-served by traditional financial institutions. We provide these borrowers with price-competitive credit solutions that are either unavailable to them or are overpriced under the binary approve-or-reject decisioning system used by many of our competitors. By using our products, these borrowers also have opportunities to develop solid, official credit records, because we have direct-write access to the CCRC consumer credit database.

- *Value proposition to business partners*. We promote sustainable and mutually beneficial collaborations with our business partners. Our joint modeling and precision marketing programs lead to technological experience exchange. Our business partners benefit from better and more relevant credit scoring models to work with and to specifically address the user-cases presented.

- *Value proposition to funding partners*. We provide our funding partners with tailored solutions at varying levels of risk discretion to expand their risk and return profile into under-served prime and near-prime borrowers, which they may be unable to otherwise reach through traditional products or business models.

We believe that we provide meaningful contributions to the continuing growth and expansion of the online consumer finance value chain. Borrowers who have particular credit histories and needs and are under-served by traditional financial institutions are attracted to us for our readily accessible, fairly priced, and tailored credit products. Funding partners with particular preferences for borrower risk profiles are attracted to us because we can provide them with access to profit opportunities with reasonable levels of certainty. As more under-served prime and near-prime borrowers become our loyal customers, we expect to collaborate with more funding partners who are looking to lend to our customer base. The more credit lending transactions that are handled through us, the more attractive we may become for business partners to carry out joint-modeling with us. And as we work with more business partners, a larger alternative data repository will help our credit data analytics and enhance our overall credit technological innovation, which may ultimately expand the depth of our virtuous business circle and the amount of transactions through our platform.

PROPRIETARY TECHNOLOGY

We are a technology-driven company, and we develop proprietary technology to enhance the efficiency of consumer credit delivery within the online consumer finance value chain. Substantially all of our proprietary technology has been integrated into one comprehensive system: *Hummingbird*. We use *Hummingbird* to apply over a decade of proprietary industry know-how and growing expertise to practice "smart lending" through a centralized delivery model. We believe that our persistence in centralized operations, as strengthened by our proprietary technology, has contributed to our swift, successful transformation and adaptation into an online consumer finance business.

Hummingbird

Major Tasks

We use *Hummingbird* to perform four major tasks: identity verification, fraud detection and prevention, debt-to-income ratio assessment, and risk quantification.

- *Identity verification*. *Hummingbird*'s identity verification module uses OCR technology to instantly read the information on loan applicants' PRC national identification cards and verify their authenticity. *Hummingbird* also uses facial recognition technology to read loan applicants' real-time facial images submitted online as an additional factor in identity verification. *Hummingbird* cross-checks the output of these measures against real-name sources maintained by mobile telecommunication operators and bank card issuers. With loan applicants' proper authorization, *Hummingbird* cross-checks the authenticity of the identity information against additional identity information from sources such as third-party online payment service providers and online retailers as an optional layer of verification.

- *Fraud detection and prevention*. *Hummingbird*'s fraud detection and prevention module is connected to our proprietary blacklists for individuals and enterprises as well as third-party anti-fraud databases. It primarily operates through *Hummingbird*'s anti-fraud engine, which screens loan applicants to detect potential fraud. For a discussion of *Hummingbird*'s anti-fraud engine, see "— Proprietary Technology — Hummingbird — Core Models and Engines — Anti-fraud engine."

- *Debt-to-income ratio assessment*. *Hummingbird*'s debt-to-income ratio assessment module works in parallel with its risk quantification module to assess loan applicants once they have passed their preliminary credit assessment. This module functions through debt assessment and income prediction. Debt assessment is primarily based on loan applicants' debt and other fixed expenses reported on their official credit records. Loan applicants' income prediction is calculated by our predictive model based on a number of verifiable records of the loan applicants such as the status of their social security fund and housing fund contributions, salary payments on bank cards, mortgage loan repayments, and credit card limits. Income prediction also factors in other effective variables with respect to qualitative attributes of loan applicants such as their occupations and online consumption patterns. Before finalizing the income prediction, *Hummingbird* cross-analyzes any interim results of income prediction against the highest credit limit recorded in the relevant loan applicant's official credit records and determines whether the interim results of income prediction is reliable and whether any adjustment is necessary. Once the results of debt assessment and income prediction are finalized, *Hummingbird* calculates the loan applicant's debt-to-income ratio, which is essential to determine the credit limit and credit term that we can offer to a borrower.

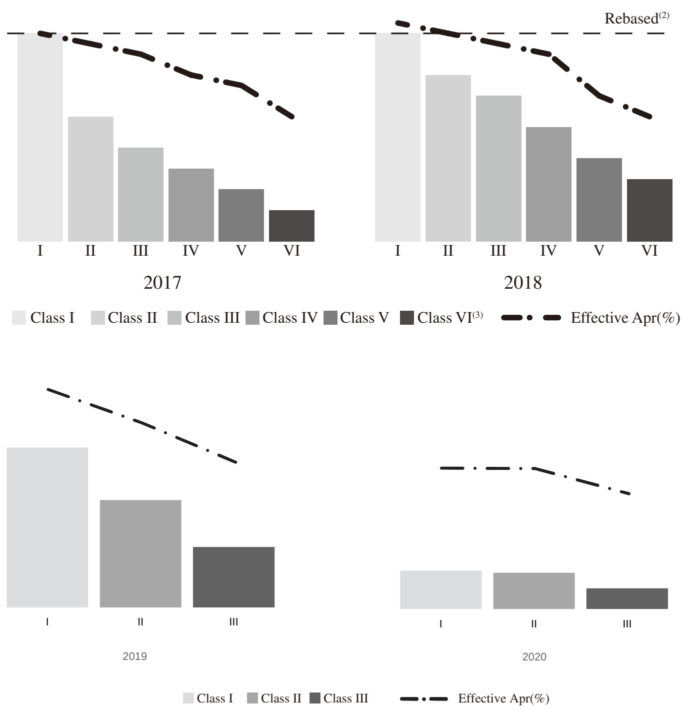
- *Risk quantification*. *Hummingbird*'s risk quantification module is critical for our credit assessment and risk-based pricing capabilities. We achieve risk quantification through our development of proprietary, multi-dimensional scorecards. For a discussion of *Hummingbird*'s scorecard engine, see "— Proprietary Technology — Hummingbird — Core Models and Engines — Scorecard engine."

We track the performance of loans we originated throughout the terms of these loans, which are typically within two years as of the date of this offering memorandum. We refer to the loans originated during a specified period as a "cohort." Under our current practice, after risk quantification is completed, the relevant loan applicants are sorted into seven credit rating categories, including one lowest credit rating category in which all loan applicants are automatically rejected. The remaining six credit rating categories range from Class I to Class VI, with Class VI representing the highest credit rating category. Based on applicants' credit rating categories, debt-to-income ratios, and various other specific factors, which depend on our discretionary application of our credit policy, we can adjust our standard credit decisioning process based on the risk profile of the loan application. We have discretion to adjust the application of our credit policy during various times or under various circumstances, and within any particular credit rating category the application of our credit policy may also differ.

Since 2019, we have deployed a new risk-based customer segmentation, in which a new three-tier segmentation is applied to better align our products and risk segments to the ever evolving market and regulation environment in a more robust and flexible manner. We review assigned customer segmentation on a monthly basis after they become our borrowers incorporating both proprietary borrower behavioral data and other external data, which significantly increases our capability of risk identification. Furthermore, this makes it possible to target the more creditworthy among existing customers to attract them for repeat borrowing.

We continue monitoring a range of asset quality indicators, including the Cohort-Based M3+ Delinquency Ratios of the loans within a cohort throughout the lives of these loans. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, the distribution of our loan applicants' credit categorization underlying our credit decisions positively reflected the distribution of risk profiles of these loan applicants as shown by the actual Cohort-Based M3+ Delinquency Ratio distribution, which demonstrates the effectiveness of our credit decisioning, that is, within each cohort the ratio decreases across credit rating categories. We applied our cohort-based categorization analysis on borrowers of more than 95% of our loan origination volume during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020. For the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020 approximately 96.0%, 93.2%, 95.6% and 97.6% of our respective loan origination volumes were subject to this cohort-based categorization analysis. The diagram below sets forth the sloping shapes of the Cohort-Based M3+ Delinquency Ratios by our credit rating categories for the cohorts indicated.

Cohort-Based M3+ Delinquency Ratio Distribution[1]



Notes:

(1) Each of the four bar charts illustrates, within one cohort, the distribution of Cohort-Based M3+ Delinquency Ratio among credit rating categories from the origination of loans in each cohort through September 30, 2020. Each cohort comprises the set of loans originated in the applicable year as indicated. Although the bars representing the Cohort-Based M3+ Delinquency Ratio for Class I credit rating in the three cohorts appear visually the same in this diagram, their values differ and the bar charts are not intended to prove any trends from 2017 to 2018. Since the beginning of 2019, we have deployed a new risk-based customer segmentation and further in 2020 we have successfully migrated our loan portfolio towards more prime customers. Cohort-Based M3+ Delinquency Ratio is defined as the Cohort-Based M3+ Delinquent Loans divided by the aggregate loan origination volume within the applicable cohort.

(2) The trend of the APR within each cohort has been rebased to the same level for illustration purposes.

(3) Without taking into account of the lowest credit rating category, in which all loan applicants are automatically rejected, we categorize borrowers into six credit rating categories from Class I to Class VI based on our credit assessment, with Class VI representing the highest credit rating category.

For each successful loan applicant we generate a credit decision that includes (i) a credit score and its corresponding credit rating category, (ii) a credit limit, and (iii) a credit term.

Core Models and Engines

Hummingbird has been developed with modular architecture and it operates in reliance on models, which are the functional units within *Hummingbird* that process data based on effective variables using various algorithms to generate outputs for its further use.

To build a model, we primarily use two sets of algorithms: data processing algorithms and machine learning algorithms. Data processing algorithms parse through voluminous data to extract effective variables that reflect desirable features and refine outputs to generate the most representative effective variables for further analytics. Machine learning algorithms utilize artificial intelligence to assist our data analytics professionals in generating models by determining the optimal array and weights of the effective variables within our models. *Hummingbird*'s core models for its operations include its credit scoring models (or scorecards), predictive models, traffic conversion models, cross-selling models, and loan servicing models.

We group *Hummingbird*'s various models into service-oriented packages that we call "engines." *Hummingbird* runs on eight core risk management engines to accomplish its major tasks: the interception engine, the anti-fraud engine, the big data engine, the user portrait engine, the scorecard engine, the policies and rules engine, the decisioning engine, and the machine-learning engine. A task may use one or more engines to achieve its goals.

- *Interception engine*. *Hummingbird*'s interception engine works with the policies and rules engine to block unwanted loan applicants. It primarily works at the preliminary screening stage of our credit assessment process, although it is constantly digesting additional data obtained throughout the process to initiate further blocking of loan applications if necessary. *Hummingbird*'s interception engine typically blocks loan applicants who (i) do not present the desirable attributes of our target borrowers, (ii) are on any blacklists, (iii) fail to meet certain quantitative thresholds such as certain third-party credit scores, (iv) have limited credit card or mobile phone histories, or (v) possess other undesirable features based on our polices and rules engine. A loan applicant who is blocked by the interception engine but who nevertheless may be of interest to our business partners will be redirected by our cross-selling models for possible recommendation to our business partners. For most of the blocked loan applicants, the interception engine can prompt the termination of their loan applications at any stage of the process.

- *Anti-fraud engine*. *Hummingbird*'s anti-fraud engine supports *Hummingbird*'s fraud detection and prevention module. It screens loan applicants using both our proprietary and third-party risk lists and other unique identification indicators in China extracted and verified internally, such as mobile phone numbers. It also cross-checks loan applications submitted online against the applicant's corresponding positioning information, Internet Protocol (IP) addresses, Media Access Control (MAC) addresses, International Mobile Equipment

Identification (IMEI) numbers, and social network and interactions. *Hummingbird*'s anti-fraud engine works in parallel with the interception engine. Compared to the interception engine, which directly blocks loan applicants on the blacklists, *Hummingbird*'s anti-fraud engine cross-analyzes blacklist information against other information sources and generate additional basis for blocking potentially fraudulent loan applicants.

- *Big data engine*. *Hummingbird*'s big data engine aggregates voluminous alternative data from multiple sources and uses data processing algorithms to process unstructured data into interim variables for advanced processing at the effective variable level for feature engineering. With user authorization, the big data engine can simultaneously aggregate six types of data and process in 21 functional dimensions per input. As of September 30, 2020, the big data engine extracts and processes data from 28 proprietary data sources and over 22 third-party data sources. Our proprietary data is aggregated based on our interaction with loan applicants and their proper authorization, while third-party data is processed by the relevant third parties based on their interaction with the users and their proper authorization.

- *User portrait engine*. *Hummingbird*'s user portrait engine performs feature engineering based on the interim variable output of the big data engine. It performs statistical analysis of interim variables and deduces features. *Hummingbird* then uses various algorithms to select the desirable features and generates a set of standardized modeling tags to be further analyzed by credit scoring models. *Hummingbird*'s user portrait engine serves as an important interim procedure in the credit risk evaluation by connecting the big data engine and the scorecard engine.

- *Scorecard engine*. *Hummingbird*'s scorecard engine is based on our credit scoring models and is critical to its risk quantification and risk-based pricing capabilities. As of September 30, 2020, we had over 125 unique scorecards, encompassing major dimensions such as official credit records, bank cards, mobile phone numbers, and e-commerce activities. We use statistical analysis systems and credit scoring models to evaluate a number of weighted factors tailored to specific user cases, and we use the results to build proprietary formulas for score calculation.

- *Policies and rules engine*. *Hummingbird*'s policies and rules engine does not operate independently and instead works with and supports other engines. For example, it provides some of the objective factors that the interception engine or the decisioning engine considers. As of September 30, 2020, *Hummingbird* had over 53,000 rules and over 23,000 rule combinations.

- *Decisioning engine*. *Hummingbird*'s decisioning engine calculates structured decision trees after evaluating data objects and variables and can be customized. It relies on the policies and rules engine and takes into account business-oriented factors to turn the results of the debt-to-income ratio assessment and the credit quantification into credit decisions.

- *Machine learning engine*. *Hummingbird*'s machine learning engine is a proprietary iteration process that uses machine learning algorithms to develop models. For example, our credit scoring models need to be updated periodically to maintain their effectiveness. *Hummingbird*'s machine learning engine optimizes credit scoring models based on borrowers' post-scoring behavior and loan performance and uses the resulting additional variable sampling to update our credit scoring models. *Hummingbird*'s machine learning engine ensures the long-term effectiveness of our various models.

"Smart Lending"

Our loan lending operations are highly automated. Powered by our "smart lending" (智能信貸) technology, borrowers can request credit online and receive our lending decisions twenty-four hours a day, seven days a week, virtually without human interference from the borrowers' perspective. Human interference is not necessary for borrowers to initiate and complete a transaction with us. Our "smart lending" technology enables us to staff our human resources more efficiently, process loan applications objectively, mitigate our exposure to operational risk, and, most importantly, enhance the borrowing experience that we offer.

Data Analytics

Our data analytics capabilities are critical to all aspects of our operations, particularly our credit assessment and risk-based pricing. Our data analytics capabilities continue evolving through machine learning as they scale. We have accumulated over a decade of experience and know-how in developing and testing models and algorithms in a well-controlled environment against a vast amount of credit data (such as outstanding loan balance, income level and stability, credit repayment history, and utilities payment history) and alternative data (such as demographic data, transaction data, location data, travel preference, and social media interaction). This experience and know-how further enhances our understanding of China's consumer finance market and enables us to supplement the machine learning process in developing our models.

Data Aggregation

Data analytics begin with data aggregation, in which we process two types of data: credit data and alternative data. As of September 30, 2020, we had aggregated data from 28 proprietary data sources and over 22 third-party data sources. Following the initial aggregation of data, *Hummingbird* verifies the data by cross-checking it against other proprietary and third-party data, encompassing many factors, including identities, behavior, social habits, consumption activities, financial profiles, and professional background.

Data Variables Determination

Once data is aggregated and verified, *Hummingbird* assists us in determining the appropriate set of valid data variables based on our industry experience and know-how. Data variables are essentially data fields used to structure raw data, and they generally become more effective in data analytics only after the data variables are tested in modeling over a period of time. As of September 30, 2020, we had over 99,700 data variables and derivative data variables. Our scorecards and decisioning engines utilize multiple data variables to assess and make intelligent and efficient consumer credit decisions on a large and growing scale.

Feature Engineering

Our models are designed to analyze and extract the features of different types of data variables and apply appropriate algorithms to each type of effective variables so that effective features may be extracted and further processed. Derivative features can be created based on base features, and two or more of these features can be further combined to generate new features. Our highly automated and sophisticated *Hummingbird* system helps us to choose the desirable features to use in preparing scorecards.

Scorecards

The functional end-products of our data analytics and modeling are credit scoring models, or scorecards. Our scorecard system uses proprietary data processing algorithms and machine learning algorithms to further analyze the features to predict the probability of prospective borrowers' defaults. We apply appropriate scorecards to work with our various credit products. As of September 30, 2020, we had over 125 unique scorecards, encompassing major dimensions such as official credit records, bank cards, mobile phone usage, and e-commerce activities.

Risk-Based Pricing

Our adaptive data analytics capabilities enable us to use granular risk-based pricing that reflects each borrower's unique risk profile. If a borrower is able to gradually improve his or her credit profile as measured by our scorecards, he or she can enjoy lower borrowing costs, which incentivizes borrowers to build and maintain good credit records.

Hummingbird assists us in translating the results calculated under our proprietary scorecards into the proper price range levels corresponding to our credit rating categories and other dynamic factors. Treatments among credit rating categories may differ, and with respect to one credit rating category we may adjust these dynamic factors under various circumstances. For example, we may impose additional requirements on loan applicants within certain credit rating category in light of market conditions.

We review and modify our granular risk-based pricing from time to time, taking into consideration not only borrower credit risk but also other factors, such as market interest rates and competition in the market.

OUR PRODUCTS AND SERVICES

Credit Products and Services for Borrowers

Our credit products and services for borrowers are primarily designed to address and serve the needs of prime and near-prime borrowers who are under-served by traditional financial institutions in China.

Product Lines

We primarily offer two categories of tailored consumer finance products to borrowers, structured according to our risk-based pricing capabilities: credit card balance transfer products and consumption credit products. As of September 30, 2020, both of our credit products were installment products, and for both of our credit products we do not offer revolving credit facilities and do not allow for loan extensions.

- *Credit Card Balance Transfer Products*. Our credit card balance transfer products, branded as "*KK Credit*" (維信卡卡貸), are balance transfer solutions for credit card holders, allowing them to transfer the balances of their credit card debt to our installment credit and bridge their short-term liquidity management needs. Using our dedicated *KK Credit App*, other third-party consumer finance marketplaces or WeChat, credit card holders can apply for *KK Credit* online at any time using the information on one credit card and one debit card and receive credit decisions within the same day. Upon approval of the credit and the completion of utilization and applicable verification procedures, funds are promptly deposited directly to repay the borrower's credit card balances and the funds cannot be used for any other purposes. As of September 30, 2020, we offered *KK Credit* in 3-, 6-, 9- and 12-month installments. For the loans of *KK Credit* originated in the nine months ended September 30, 2020, the average term was approximately 9.1 months and the average loan size was approximately RMB16,286.

- *Consumption Credit Products*. We have designed our consumption credit products based on specific user-cases for various consumption scenarios. As of September 30, 2020, we had 6 consumption credit products. Some of our main consumption credit product brands include *Dou Dou* (豆豆錢). *Dou Dou* is a household consumption financing product. As of September 30, 2020, our consumption credit products were offered in the range of 3-, 6-, 9- and 12-month installments. For the loans of consumption credit products originated in 2019, the weighted average term was approximately 8.9 months and the average loan size was approximately RMB11,055.

During the years ended 2017 and 2018, we also provided online-to-offline credit products. On October 10, 2018, we entered into an agreement to dispose of the subsidiary that operated our online-to-offline business platform and the disposal was completed on December 31, 2018. Following the disposal, we no longer operate the online-to-offline business platform, but we believe that we continue to serve the need of substantially the same group of borrowers through our credit card balance transfer products and consumption credit products.

The following table sets forth the distribution of our loan origination volumes by product line for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,				For the Three Months Ended September 30,			
	2017		2018		2019		2019		2020		2019		2020	
	RMB (in millions)	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*
Loan Origination Volume														
Credit Card Balance Transfer Products	14,168.7	57.7	13,497.9	65.0	13,068.3	38.7	6,663.7	46.3	2,770.2	20.8	3,596.7	35.2	1,625.0	18.7
Consumption Credit Products	7,859.7	32.0	4,652.0	22.4	20,678.1	61.3	7,739.2	53.7	10,543.2	79.2	6,618.4	64.8	7,051.6	81.3
Online-to-Offline Credit Products	2,515.8	10.3	2,606.3	12.6	—	—	—	—	—	—	—	—	—	—
Total	**24,544.2**	**100.0**	**20,756.2**	**100.0**	**33,746.4**	**100.0**	**14,402.9**	**100.0**	**13,313.4**	**100.0**	**10,215.1**	**100.0**	**8,676.6**	**100.0**

Membership Services

Since January 2018, we have been offering standalone paid membership services on our major product mobile apps, such as *KK Credit App* and *Dou Dou App*. Any registered user of the relevant product mobile app can become a member by paying a membership fee and subscribing for these app-based membership services, and we do not require the use of any of our credit products as a prerequisite for these membership services.

We offer membership services based on the nature of the relevant product mobile apps and the prospective needs of these relevant product mobile apps. For example, the services available on our *KK Credit App* are designed for members who are credit card holders and primarily include: (i) comprehensive credit self-assessment, where a member can authorize us to aggregate the relevant data, perform credit assessment, and produce a credit score that indicates the relevant credit rating category of the member and potential credit limit that can be granted by us or our funding partners, (ii) credit card management service, where the member can authorize us to import his or her credit card and debit card information to consolidate management of all bank cards in one place, monitor various promotional incentives offered by various card issuers, and pay credit card bills without incurring additional charges, (iii) sending location-based, customized alerts of third-party credit card benefits so that the member can enhance his or her credit card use experience, and (iv) membership points accumulation and related services. We offer additional membership services on other Apps that are not otherwise available on our *KK Credit App*, such as (i) review priority during our credit assessment process, (ii) one-on-one dedicated customer service, (iii) credit decisioning priority for high-quality repeat borrowers, and (iv) popular third-party promotional coupons.

Our members have flexible options to pay their membership fees. A registered user can become a member and choose to (i) pay by charging to his or her bank card directly or through third-party payment services before settling a loan or (ii) in certain cases pay later. If the member defaults in making the membership fee payment, we do not count it as an event that is reportable to the CCRC.

Collaboration with Business Partners

We collaborate with our business partners in product development and marketing. The depth of our collaboration with our business partners varies from case to case depending on their respective needs and requirements and the length and reciprocity of the mutual relationships. Under our credit-plus-alternative data approach, our business collaborations typically start and focus on joint modeling and they currently also cover precision marketing and traffic support.

We carry out joint modeling programs with several Chinese Internet technology conglomerates that have massive volumes of user-case-based alternative data and varying levels of modeling capabilities. While the immediate output of these collaborations typically includes enhanced scorecards specifically tailored to the business partners' user cases that we jointly determine, we also gain valuable experience through these collaborations in credit modeling based on the wide range of data types and user cases that are made available to us.

Our collaborations with business partners do not always include precision marketing or traffic support, both of which enhance the output of joint modeling and thus are typically included in more comprehensive collaborations. Precision marketing helps select prospective borrowers with certain features that we use to produce "white lists" of prospective borrowers for credit assessment. Traffic support from business partners helps increase our borrower base. For further details on precision marketing and traffic support, see "— Case Studies — Collaboration with Du Xiaoman Financial."

We carry out collaborations with our business partners in a holistic approach, and the commercial arrangements for these collaborations do not necessarily correspond to individual components of our collaborations. For example, we do not generate income directly from joint modeling, precision marketing, or traffic support. Instead, for a business partner with which we have such comprehensive collaborations, we have an overall income sharing arrangement, under which we recognize income from the underlying credit products in full and then expense a portion of the income from the underlying credit products as the relevant business partner's share of income. We do not separately record costs for joint modeling, precision marketing, or traffic support. Our costs for joint modeling and precision marketing are included in our origination and servicing expenses and research and development expenses, and we do not separately incur costs for traffic support, as the relevant business partners do not charge us in addition to the income sharing arrangements.

Our collaborations with business partners are mutually beneficial. In addition to the direct economic benefits from our income sharing arrangements, our business partners are incentivized to maintain and enhance their collaborations with us, because we can efficiently improve the effectiveness of their credit scoring models by leveraging our technology and years of industry know-how and maintain such effectiveness by periodically re-examining and updating the jointly developed credit scoring models. Through these collaborations we help our business partners commercialize their own alternative data without compromising their data ownership and generally enhance their user experience. We, on the other hand, expand our experience and data exposure in analyzing different types of effective variables and customizing credit scoring models for different user cases, thus enhancing our credit data analytics and overall modeling capabilities. We also receive economic benefits from our income sharing arrangements, and expand our user bases by tapping into our business partners' existing users. Certain of our business partners are also engaged in consumer finance business that may offer competing products. Through our collaboration with our business partners in joint modeling, we have implemented advanced risk-based pricing on existing users of their platforms, so that our business partners are able to recommend to us specific borrowers meeting our particular risk preference through our comprehensive collaboration. Because of our specific market focus, we believe that we and our business partners in these arrangements are not in direct competition. Rather, our comprehensive collaboration creates mutual benefits for both us and our business partners.

Our collaboration with our business partners complies with the applicable requirements under Circular 141. For a summary of our compliance status with respect to Circular 141, see "Business — Legal Proceedings and Compliance — Compliance with Circular 141." We collaborate with our business partners primarily through our small loan companies and VC Financial Technology. With respect to the collaboration with our business partners, the requirements under Circular 141 are applicable to our small loan companies only. Based on the confirmation we received from the relevant PRC government authorities in February 2018 after inspection on our small loan companies in accordance with relevant PRC laws and regulations, our small loan companies did not violate any mandatory PRC laws and regulations and were not subject to any government penalties.

For a case study on our most comprehensive collaboration with one of our business partners, see "— Case Studies — Collaboration with Du Xiaoman Financial."

Services to Funding Partners

Our relationships with our funding partners are characterized by a high degree of mutual benefit. Through trust lending and credit-enhanced loan facilitation structures, we provide loan guarantee services, which are part of the funding structures rather than standalone services. For a discussion of our cooperation with our funding partners, see "— Funding of Loans — Our Funding Partners."

Historically, our business operations typically do not focus on providing services to our funding partners. As we have developed *Hummingbird* and deepened our understanding of our funding partners' businesses and requirements, we recently began offering technology services to our funding partners, particularly in the risk management and credit modeling areas. Through these services, our funding partners can enhance their risk management system with our credit assessment technologies — either in the form of SaaS-based subscriptions or by directly embedding our technologies in their system. We deliver our technology services primarily through SaaS-based subscriptions, where certain commercial components of *Hummingbird* and cloud computing resources are accessible via the Internet. We can assist our funding partners that subscribe for these services in setting up the proper configuration and interface to receive our technology services. On a case-by-case basis, we can also deliver our services by embedding certain credit assessment components directly in their risk management system, which can require significant modifications within their IT infrastructure to imbue certain models.

Loan Portfolio

Our outstanding loans increased significantly during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, primarily due to our enlarged capital base. For the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, our loan origination volume was RMB24.5 billion, RMB20.8 billion, RMB33.7 billion and RMB22.0 billion respectively.

The following table sets forth the profile of our loans originated for the period indicated.

	For the Nine Months Ended September 30, 2020	
	Credit Card Balance Transfer Products	Consumption Credit Products
Average Loan Size (approx. RMB)	16,286	11,055
Weighted Average Loan Term (Months)	9.1	8.9
Average APR	21.5%	21.3%

The following table sets forth the profile of our loans originated for the periods indicated.

	For the Year Ended December 31,			For the Nine Months Ended September 30,
	2017	2018	2019	2020
Average Loan Size (approx. RMB)	7,289	9,300	8,804	11,813
Weighted Average Loan Term (Months)	13	13	10	9
Average APR	23.2%	21.1%	27.7%	21.3%

Loan Distribution by Borrower Type

The following table sets forth the monthly average repeat borrowing rate for the periods indicated. The monthly average repeat borrowing rate is calculated as the average number of repeat borrowers since inception by month during a specified period as a percentage of total unique borrowers who have fully repaid at least one loan since inception.

	For the Year Ended December 31,			For the Nine Months Ended September 30,
	2017	2018	2019	2020
	%	%	%	%
Monthly average repeat borrowing rate	69.3	60.6	59.8	58.8

Our monthly average repeat borrowing rate was 69.3%, 60.6%, 59.8% and 58.8% respectively, in the years ended 2017, 2018 and 2019 and for the nine months ended September 30, 2020.

OUR BORROWERS

Borrower Base

Target Borrowers

We target prime and near-prime borrowers who typically have bank accounts and credit cards but are under-served by traditional financial institutions. We strategically focus on these borrowers because we believe they tend to be relatively more creditworthy than other sub-prime borrowers and because they are more receptive to online consumer finance solutions. Despite those positive attributes, these borrowers nevertheless have limited access to credit from China's traditional financial institutions. As of September 30, 2020, we had cumulatively verified the identities of 66.4 million users. We had provided credit products to approximately 5.0 million borrowers in approximately 11.3 million loan transactions during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020.

Borrower Profile

Based on the information we obtained (with authorizations) from our loan applicants, as of September 30, 2020, most of our borrowers were aged between 25 to 30 years old.

Our loan origination volume had official credit records and were assigned credit scores by *Hummingbird*. *Hummingbird* assigns varying points and weights to a number of credit-assessment factors that we review and consider from time to time to calculate credit scores, and this process is primarily based on credit data from official credit records, which have a shorter history as compared to those in the United States. Based on the credit scores and other factors, we assign borrowers into different credit rating categories. We consider Class III to be prime borrowers and Class I to Class II borrowers to be near-prime borrowers. In 2020, we have incorporated much more third-party data into our credit decisioning to target more prime borrowers.

The following table sets forth the borrower profile and the loan origination volume distribution of each credit rating category during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020.

	% of Loan Originiation Volume		
	Credit Rating Category(1)	**2017**	**2018**
Near-Prime	I	8.8	8.7
	II	16.0	13.6
	III	24.3	22.5
	IV	28.7	29.7
Prime	V	18.0	19.2
	VI	4.3	6.3

	Credit Rating Category	2019	For the Nine Months Ended September 30, 2020
Near-Prime	I	22.3	8.0
	II	55.3	38.4
Prime	III	22.4	53.6

Note:

(1) A credit rating category is determined based on credit scores and assessment of other factors (such as analytics of alternative data).

Borrower Acquisition and Services

We attract borrowers through various online channels, including our own websites and mobile apps. Our online borrower acquisition efforts are supported by our big data capabilities and are primarily directed toward search engine marketing, search engine optimization, mobile application downloads through major application stores, partnering with online channels through application programming interfaces, as well as various marketing campaigns.

We also acquire borrowers through Internet traffic referrals from some of our business partners and other third-party online platforms. Under the relevant cooperation arrangements, our business partners and other third parties may divert borrower traffic to us who fall within our target borrower group. We have income sharing arrangements with our business partners and thus do not pay separate referral fees to them. We pay referral fees to other third-party online platforms under the traffic referral arrangements.

We used to maintain more than 100 offline outlets during the last three years to serve the expansion of our business. Since we began migrating our business online in 2015, we have been gradually adjusting the functions of our offline outlets, focusing on supplemental risk management and loan servicing functions. Following the disposal of our online-to-offline business platform in 2018, we no longer maintain offline outlets.

Borrower Charges

We previously charged our borrowers service fees in addition to interest payments, based on the product categories and funding structures. For loans funded through funding arrangement entered into after December 2017, we ceased to charge borrowers service fees. For further details on our latest APRs, see "— Our Products and Services — Loan Portfolio."

FUNDING OF LOANS

Our Funding Partners

We cooperate with licensed financial institutions, including banks and trust companies, to fund the loans we facilitate or grant. These loans are funded by licensed financial institutions in compliance with relevant PRC laws and regulations. Our collaboration with these funding partners provides us with sufficient funding to meet the demands of our growing lending business. Some of these funding arrangements are on a long-term basis. As a supplement to funding from or through funding partners, 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 funds to structure our collaboration with our funding partners.

As of September 30, 2020, we had collaboration relationships with 53 funding partners, including banks, trust companies, and other financial institutions. For the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, our funding partners funded approximately 94.9%, 93.8%, 99.1% and 99.6% of the amount of loans we originated, respectively. In 2017 and 2018, we have been working to further promote a funding structure where we are not required to provide loan guarantees in connection with their funding. In the years ended 2018 and 2019 and for the nine months ended September 30, 2020, loans funded under this funding structure amounted to RMB2.0 billion, RMB1.9 billion and nil, respectively, representing 9.5%, 5.5% and nil of our aggregate loan origination volume, respectively.

Funding Structures

We utilize four funding structures for our loan lending and facilitation business: direct lending, trust lending, credit-enhanced loan facilitation, and pure loan facilitation. The following table sets forth a breakdown of loan origination volume by funding structure for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,				For the Three Months Ended September 30,			
	2017		2018		2019		2019		2020		2019		2020	
	RMB (in millions)	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*
Loan Origination Volume														
Direct Lending	1,258.2	5.1	1,279.3	6.2	295.1	0.9	215.4	1.5	69.7	0.5	31.4	0.3	36.0	0.4
Trust Lending	19,474.6	79.4	12,446.9	60.0	15,333.3	45.4	5,056.9	35.1	5,049.4	37.9	4,615.9	45.2	2,637.8	30.4
Credit-Enhanced Loan Facilitation	2,920.1	11.9	5,054.6	24.3	16,254.5	48.2	7,757.5	53.9	8,055.1	60.5	5,255.6	51.4	6,002.8	69.2
Pure Loan Facilitation	891.3	3.6	1,975.4	9.5	1,863.5	5.5	1,373.1	9.5	139.2	1.1	312.2	3.1	—	—
Total	**24,544.2**	**100.0**	**20,756.2**	**100.0**	**33,746.4**	**100.0**	**14,402.9**	**100.0**	**13,313.4**	**100.0**	**10,215.1**	**100.0**	**8,676.6**	**100.0**

Among all loans originated by us, we record the outstanding loan principal and accrued interest in connection with our trust lending and direct lending structures as loans to customers on our consolidated statements of financial position.

The following table sets forth a breakdown of our loan origination volume under the direct lending and trust lending structures by product line during the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,				For the Three Months Ended September 30,			
	2017		2018		2019		2019		2020		2019		2020	
	RMB (in millions)	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*	*RMB (in millions)*	*%*
Loan Origination Volume														
Credit Card Balance Transfer Products	14,168.7	57.7	13,497.9	65.0	13,068.3	38.7	6,663.7	46.3	2,770.2	20.8	3,596.7	35.2	1,625.0	18.7
Consumption Credit Products	7,859.7	32.0	4,652.0	22.4	20,678.1	61.3	7,739.2	53.7	10,543.2	79.2	6,618.4	64.8	7,051.6	81.3
Online-to-Offline Credit Products	2,515.8	10.3	2,606.3	12.6	—	—	—	—	—	—	—	—	—	—
Total	**24,544.2**	**100.0**	**20,756.2**	**100.0**	**33,746.4**	**100.0**	**14,402.9**	**100.0**	**13,313.4**	**100.0**	**10,215.1**	**100.0**	**8,676.6**	**100.0**

For a breakdown of gross balance of loans to customers, please refer to "Financial Information — Discussion of Certain Line Items on the Consolidated Statements of Financial Position — Assets — Loans to customers."

Direct Lending

Our small loan companies have been permitted by the relevant PRC authorities to conduct online small loan business since April 2015 and March 2016, respectively. For the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we funded approximately RMB1.3 billion, RMB1.3 billion, RMB295.1 million and RMB105.7 million of loans through our small loan companies using our own capital, representing approximately 5.1%, 6.2%, 0.9% and 0.4% of our total loan origination volume for the same periods, respectively.

Our PRC Legal Advisor is of the view that our small loan companies are licensed to operate lending business under relevant PRC laws and regulations and are not subject to the P2P Interim Measures. We operate direct lending business through our two small loan companies, which are permitted to operate online direct lending businesses. According to relevant laws and regulations, online small loan companies in Shanghai and Chengdu, are not required to obtain VATS Licenses for their respective online direct lending business. In addition, under our direct lending structure, our online small loan companies are responsible for providing funds and do not provide any telecommunication or information services through websites or mobile applications, and thus are not operating a value-added telecommunication business. Therefore, neither Vision Small Loan Chengdu nor Vision Small Loan Shanghai is required to obtain a VATS License for their respective direct lending business.

Trust Lending

We cooperate with PRC trust companies to fund loans to borrowers through trust plans established in China in collaboration with these trust companies serving as our funding partners. Each of these trust plans has a specified term and qualified investors in these trust plans can subscribe to trust units, which provides them with fixed rates of return on their investments. Once a borrower's credit limit is approved and funding is requested, the trust plan, which is designated as the lender, disburses the loan amount to the borrower directly. The borrower is required to repay the principal and interest directly to the trust plan.

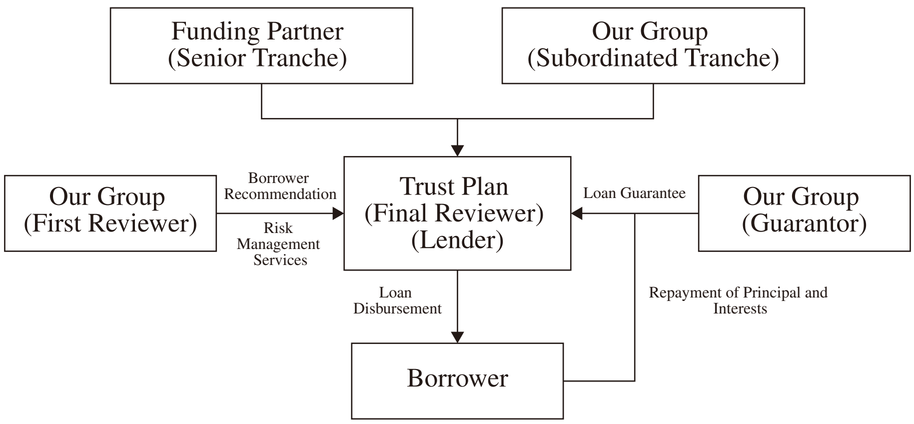
We are designated as the risk management service provider for these trust plans, and in this role we screen borrowers, conduct credit assessments and make credit recommendations pursuant to contractual agreements with them. We also provide loan guarantees as part of our services to the trust plans, and we do not separately record additional loan guarantee fees for this service on our consolidated financial statements.

We subscribe to the subordinated tranches in certain trust plans with our own capital to provide assurance to the trust investors subscribing to the senior tranches and the trust companies establishing the trust plans. No payments are made to the subordinated tranche units until the senior tranche units are fully paid. The trust plan remits to the trust investors pursuant to the terms of the trust plan that reflect (i) a pre-agreed rate of return and (ii) the funds initially provided by the trust investors. If payments made by borrowers are less than the amount that would reflect the pre-agreed rate of return and funds initially provided by the trust investors, we are obligated to top-up any shortfall in addition to our guarantee liabilities so that the trust investors still receive the total amount specified under the trust plan arrangement. We retain any remaining amount in the trust plan. From an accounting perspective, we have power to direct the activities of the trust plans, which only invest in loans recommended by us, and consequently we are considered the primary beneficiary of the trust plans and have consolidated the trust plans' assets, liabilities, results of operations and cash flows. The trust company is responsible for administering the trust plan and is paid a service fee. While trust companies typically collaborate with us through the trust lending structure, they are free to choose collaboration with us through other funding structures. We are also exploring collaborating with trust companies through the credit-enhanced loan facilitation structure. For the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, the loan origination volume through trust lending was RMB19.5 billion, RMB12.4 billion, RMB15.3 billion and RMB7.7 billion, respectively.

During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, the investors in these trust plans included qualified individuals and institutional investors domiciled in China. The terms of the trust plans are typically 1 to 3 years, with funding cost between 6% and 15% during the same periods. For details of the effective interest rates of the trust plans, see "Financial Information — Indebtedness — Borrowings — Payables to senior tranche holders of trust plans and asset management plans."

The following chart sets forth the typical trust lending model.

TRUST LENDING STRUCTURE

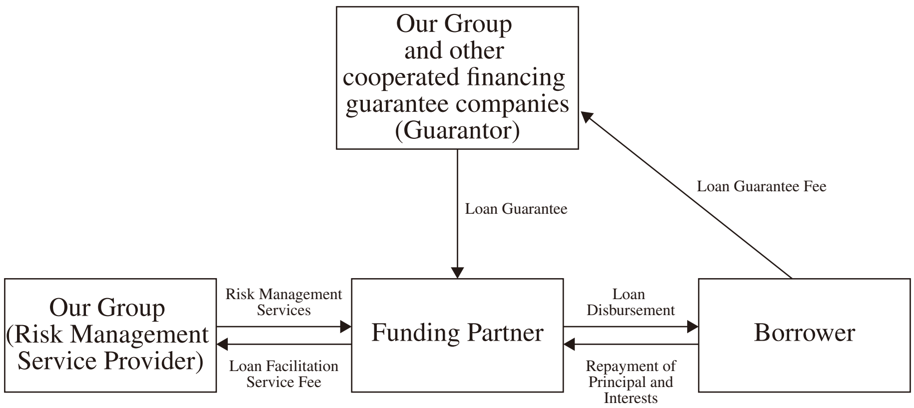


Credit-Enhanced Loan Facilitation

We began cooperating with financial institutions in China to fund credit to borrowers in December 2012. In our credit-enhanced loan facilitation structure, we provide our funding partners with our risk management services supported by our advanced risk-based pricing capabilities to screen under-served prime and near-prime borrowers. We screen and perform credit assessment before referring borrowers to these funding partners. They then review the credit applications and approve credit for successful loan applicants. Once a credit limit is approved and funding is requested, the funding partners directly fund the credit to the applicable loan applicants. In this structure, the relevant funding partner is the lender under the borrowing agreement. The borrower is required to repay the principal and interest directly to the funding partner, which will in turn deduct the principal and interest due to it from those payments and remit the remainder to us as our loan facilitation service fees. We and other cooperated financing guarantee companies provide a loan guarantee for these types of loans and separately charge loan guarantee fees from the borrower. If the borrower defaults, we are obligated to repay the full delinquent amount to the relevant funding partner. Some trust companies that previously collaborated with us through the trust lending structure also collaborate with us through the credit-enhanced loan facilitation structure.

The following chart illustrates the typical credit-enhanced loan facilitation structure.

CREDIT-ENHANCED LOAN FACILITATION STRUCTURE



Pure Loan Facilitation

Since 2017, we have been working to further promote a pure loan facilitation funding structure, under which we do not use our own capital or provide loan guarantees to fund credit to borrowers. Under this structure, we make credit recommendations and provide other value-added services to our funding partners, and our funding partners take a more active role in credit assessment and other aspects of the lending process. Through the pure loan facilitation structure, we are providing our funding partners with integrated credit assessment services through *Hummingbird*. Under this structure, we do not charge guarantee fees and only charge loan facilitation service fees from our funding partners.

Under our trust lending, credit-enhanced loan facilitation, and pure loan facilitation structures, we facilitate loan transactions funded by licensed financial institutions, which are not private lending transactions. Under the P2P Interim Measures and relevant interpretations of the CBIRC, P2P online lending refers to lending between peers, which is a form of private lending transaction. Therefore, our PRC Legal Advisor is of the view that our business under the trust lending, credit-enhanced loan facilitation, and pure loan facilitation structures falls under the category of "banking financial institutions conducting lending business in cooperation with third parties" under Circular 141, rather than P2P online lending. As advised by our PRC Legal Advisor, our loan facilitation business is not listed as a value-added telecommunication business under any classification of the Telecommunication Business Classification Catalogue (電信業務分類目錄), and there are no rules or regulations requiring companies conducting loan facilitation business like us to obtain a VATS License. Furthermore, we have been advised by the Shanghai Communications Administration Bureau (上海市通信管理局)) that we are not required to obtain a VATS License and that it will not issue a VATS license to us or any of our PRC subsidiaries. Based on the above and confirmation by competent regulatory authorities, we believe that we are not required to obtain a VATS License for our loan facilitation business.

CASE STUDIES

Collaboration with Du Xiaoman Financial

Du Xiaoman Technology (Beijing) Co., Ltd. ("**Du Xiaoman Financial**") is the financial services unit of Baidu, Inc., a leading Chinese Internet search service provider operating a broad range of Internet businesses. Du Xiaoman Financial offers a consumer finance product line in addition to its other financial services. Products it offers in this line include installment-based financing as well as other consumer finance products. Du Xiaoman Financial has its own risk management system and modeling capabilities.

As of September 30, 2020, our collaboration with Du Xiaoman Financial encompassed joint modeling, and exploration of traffic support, precision marketing, and opportunities in funding cooperation.

- *Joint modeling*. The goal of our joint modeling efforts with Du Xiaoman Financial is to leverage the existing credit scoring model and its effective variables based on its voluminous user data. We perform data analytics with respect to Du Xiaoman Financial's alternative data, which is aggregated (with user authorization) during its provision of various services. Our credit scoring model building process also uses credit data to enhance the effectiveness of the jointly developed credit scoring model. The alternative data remains the property of Du Xiaoman Financial, but, when combined with our know-how, contributes to the improvement of Du Xiaoman Financial's credit scoring model. The credit scoring model development concludes with the creation of a customized scorecard tailored to the users of Du Xiaoman Financial.

- *Precision marketing*. The goal of precision marketing is to select prospective borrowers with certain features before the application of the credit model. This technique allows us to increase the credit approval rate without compromising the integrity of our credit model. We believe that using a customized credit scoring model without precision marketing typically results in a relatively low credit approval rate because the prospective applicant pool is larger than necessary and the customized credit scoring model is effective. Precision marketing requires joint efforts in that (i) we provide desirable user features that meet our requirements for borrowers with respect to a particular credit product, and (ii) Du Xiaoman

Financial and we jointly analyze these features against its user base to determine additional user features to be applied. The precision marketing concludes with an output of a "white list" of prospective borrowers.

- *Traffic support*. The goal of our traffic support collaboration with Du Xiaoman Financial is to increase our borrower base by tapping into its existing users. Du Xiaoman Financial has selectively integrated access to our credit products within its mobile apps and websites. Traffic support is an integral part of our comprehensive collaboration with Du Xiaoman Financial, where we operate certain credit products under the Baidu Youqianhua product line in conjunction with Du Xiaoman Financial using our direct lending structure and allow Du Xiaoman Financial to share a portion of the income based on its traffic contribution.

- *Exploration of funding cooperation*. Du Xiaoman Financial is a seasoned originator of ABSs. We are exploring to extend our existing trust lending structure by adding an ABS element to further streamline our funding structure. As of September 30, 2020, our exploration of opportunities in funding cooperation with Du Xiaoman Financial remained ongoing but had not yet resulted in implementation.

Collaboration with FOTIC

FOTIC is a licensed trust company established in China and is a subsidiary of SinoChem Group, a central-level state-owned enterprise in China. Its main business operations include micro-finance, securities trust, ecological finance for micro, small, and medium enterprises, capital markets, industrial finance, and wealth management.

We have a long-term relationship with FOTIC, which has been one of our major funding partners. With respect to the loans originated by us through our trust lending structure, it provides trust services and funding aggregation services. For further information about our trust lending structure, see "— Funding of Loans — Funding Structures — Trust Lending."

In December 2012, we and FOTIC co-released Huijin No. 3 Aggregated Trust (匯金3號消費信貸集合資金信託計劃), a major trust plan used in our trust lending structure. There have been multiple issuances under the trust plan since its inception.

In March 2017, we entered into a 20-year trust funding arrangement agreement with FOTIC for Huijin No. 3 Aggregated Trust. The following summarizes the key terms and conditions of this agreement:

- *Management of the trust plan*. FOTIC will manage the trust plan to invest in the consumption loans. We can designate certain entities to provide FOTIC with borrower recommendation services.

- *Subscription to subordinated tranche*. We will subscribe to the subordinated tranche of the trust plan and receive the investment return from it. The senior tranche investors have the right to receive their principals and returns prior to us. If the trust plan suffers losses, the investment of the subordinated tranche will be paid to the senior tranche investors to the extent necessary for them to receive the full amount of their investment principal and expected return. If the investment of the subordinated tranche is not sufficient to fully pay the senior tranche investors' entitlements, we will make further investment into the trust plan to fund such insufficiency.

- *Fee payment*. FOTIC will receive service fees for managing the trust plan, including the management fee at a fixed percentage of the total amount of trust assets and performance-based rewards.

- *Termination*. The agreement will terminate upon expiration or if we fail to make supplementary investment as required.

- *Renewal*. The term of the agreement can be renewed after the negotiation of the parties within 30 days before the expiration date.

We and FOTIC are constantly exploring collaboration areas to further expand the use of our *Hummingbird* system in a mutually beneficial way, including forming a financial technology joint venture in the future.

Our long-term collaboration with FOTIC is based on the following commercial considerations.

- *Established long-term relationship*. We established collaboration with FOTIC as our funding partner in our early years. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we have not had any disputes with FOTIC in relation to our collaboration.

- *Reputation*. FOTIC is a leading institution in China's trust fund management business and we believe that it has a strong position and reputation in the industry. Given its market position, FOTIC is a well-placed source of funds from a variety of financial institutions at competitive rates to meet the demands of our customers for credit.

- *Mutual and complementary relationship*. We provide borrower recommendations and risk management services to FOTIC. In addition, we also provide loan guarantees to the loans granted by the trust plans. Based on this relationship, we and FOTIC consider each other to be major partners in each other's business.

- *Industry and regulatory restrictions*. After the implementation of Circular 141 in December 2017, FOTIC has continued participating in the consumer finance business in compliance with applicable laws and regulations and continued to provide the services to us necessary for our trust lending structure. For further information in relation to Circular 141, see "Regulations — Regulations Relating to Online Lending."

TRANSACTION PROCEDURES

Transaction Procedures

Our automated credit application process is available online twenty-four hours a day, seven days a week. Leveraging our proprietary credit assessment know-how and risk management system, we provide users with a simple, efficient and objective online application experience. While we deliver our credit products through several product-specific mobile apps that have separate application procedures, the core procedures are similar across all of our product mobile apps. A successful loan applicant typically receives his or her credit approval within the same day. Depending on the credit product and loan applicant's background, the entire process from initial application to loan disbursement typically completes within 24 hours.

Step 1: Online Application and User Authorization

Our credit application process begins with the loan applicant submitting an online loan application. The loan applicant must first become our registered user through our product-specific mobile apps or websites, and as part of that registration process is asked to provide certain personal information depending on the loan applicant's desirable loan products, typically including PRC national identification card number, mobile phone number, and credit card or other bank card information. The loan applicant can then apply for a loan through our individual product-specific mobile apps only, as we do not accept any loan applications on our websites. Together with the application, the loan applicant has to expressly authorize us to access the CCRC consumer credit database and other applicable data sources relating to the loan applicant so as to enable us to proceed to the next step.

Step 2: Preliminary Screening and Due Diligence

After the loan applicant completes the online application and supplies the required information, our *Hummingbird* system aggregates credit and alternative data from a number of internal and external sources either from our accumulated database or based on the authorization provided by the loan applicants, including the following:

Internal:

- credit analysis and data accumulated during historical transactions, such as internal blacklist, and user interaction network data, phone number verification data bank, and user profile data

- behavioral data that we collect from loan applicants as they complete their online applications or act while using our mobile apps or websites, such as the time spent in completing the applications, mobile device environment, number of times the PRC national identification card numbers or birthday entries were corrected

External:

- CCRC consumer credit database

- credit scores reported by selected third-party credit rating services

- personal identity information maintained by an organization operated under the PRC Ministry of Public Security

- online blacklist or other data maintained by industry anti-fraud service providers for cross-checking with each other

- scores derived from social network information

- scores derived from popular online retail and mobile commerce platforms

The additional data aggregated is then cross-checked against the application during our preliminary screening and due diligence. We analyze the aggregated data to verify the loan applicant's identity, detect and prevent fraud, and prepare for credit risk quantification. Loan applicants identified as presenting abnormally high risk of fraud or that are otherwise suspicious are declined by *Hummingbird*. For a discussion of our credit assessment and approval procedures, see "Risk Management — Credit Risk Management — Credit Assessment and Approval."

Step 3: Credit Risk Quantification and Credit Decisioning

Once we are satisfied with the preliminary screening and due diligence on the loan applicant, the loan application proceeds to the next phase of the application process, where we conduct credit risk quantification and credit decisioning.

We use a set of proprietary, specifically designed scorecards to quantify the credit risk of each loan applicant and to provide a basis for pricing the relevant credit products. As part of our "smart lending" technology, we apply multiple scorecards to quantify a loan applicant's future performance in respect of loan obligations and to predict the level of credit risk by generating a credit score. For a discussion of our scorecards, see "— Proprietary Technology — Data Analytics — Scorecards." We then make credit decisions based on the output of the application of multiple dimensions of scorecards together with other factors such as an assessment of the loan applicant's debt-to-income ratio. For each successful loan applicant we generate a credit decision that includes (i) a credit score and its corresponding credit rating category, (ii) a credit limit, and (iii) a credit term.

Step 4: Utilization and Fund Matching

As long as the loan applicant has an approved credit limit and credit term, the loan applicant can request utilization of loans within that approved credit limit and credit term. Upon receipt of a utilization request, *Hummingbird* reviews the utilization request and re-evaluates the creditworthiness of the loan applicant to ensure that there is no red flag preventing the requested utilization. *Hummingbird* then automatically matches the appropriate funding partner and funding structure based on the funding readiness (in terms of funding terms and funding amount) and the funding cost. The process does not require any action from the loan applicant.

Depending on the product, the loan applicant may be prompted to pay a membership fee to become our member, but the membership or payment of the memebership fee is not required for loan settlement. The membership service gives the applicant access to various services depending on the applicable product. For further details of our membership services, see "— Our Products and Services — Credit Products and Services for Borrowers — Membership Services."

Step 5: Settlement

Once the utilization request is approved, we or our funding partners, as applicable, settle the utilization request and fund credit to the loan applicant. Funding typically occurs within the same day or by the next business day after a utilization request is made and approved.

Step 6: Loan Servicing and Collection

We utilize an automated process to collect scheduled loan payments from our borrowers. Upon loan origination, we establish a payment schedule with payments scheduled for a set business day each month. Borrowers then make scheduled loan repayments online or via a third-party payment platform to a custody account, and authorize us to debit the custody account for the transfer of scheduled loan repayments. For borrowers who do not use the automated repayment process, we provide payment reminder services, such as sending reminders through text and instant messages on the day a repayment is due. Once a repayment is delinquent, we send additional reminders.

Our collection efforts are designed to extend to every delinquent borrower. Our collection process is divided into distinct stages based on the severity of delinquency, which dictates the level of collection steps to be taken. For example, automatic reminders through text and instant messages are sent to a delinquent borrower as soon as the collections process commences, and we take these types of measures to address delinquencies typically caused by borrowers' oversight. If the payment is still outstanding after these reminders, our collection system initiates automated voice calls. If these efforts still remain unsuccessful, our collection team makes phone calls and discloses the delinquency to the CCRC if a payment is delinquent for more than 3 days. For larger delinquent amounts, we may also conduct in-person visits. We may outsource our collection efforts to third parties when the loans are delinquent for a specified period or more and collection attempts have reached a specified number. In the event of (i) the death of a borrower or (ii) the amount delinquent for 12 months or more and therefore deemed uncollectible, we will write off the relevant outstanding amount. Substantially all of our write-offs since our inception were due to amounts that remain delinquent for 12 months or more.

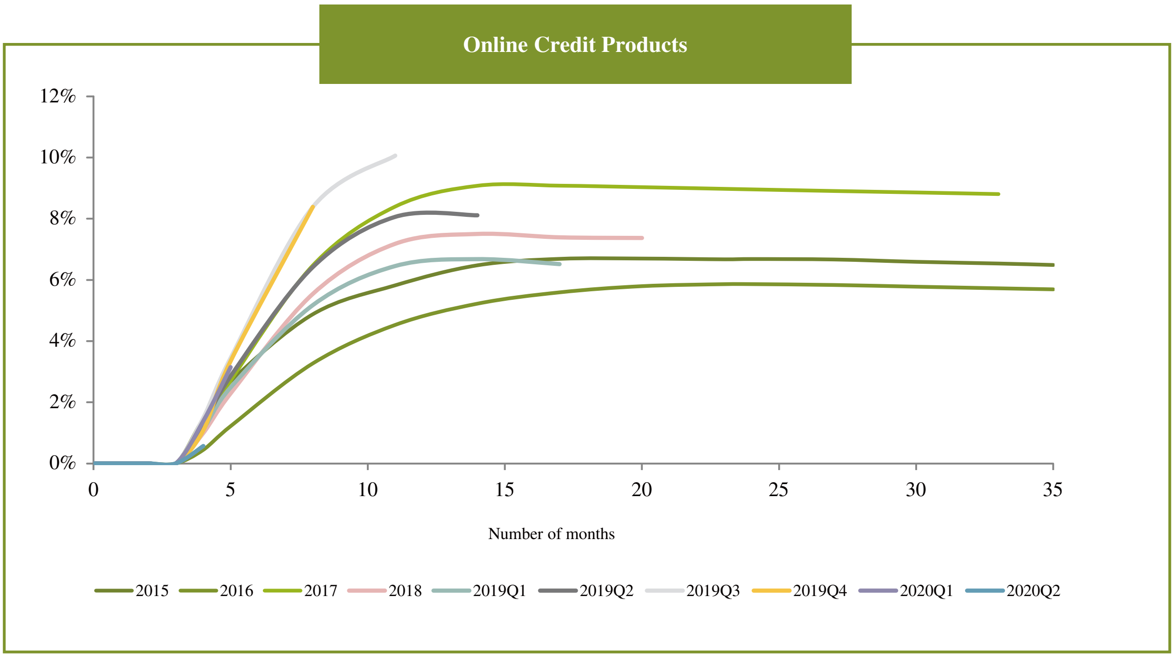
ASSET QUALITY AND PROVISIONING POLICY

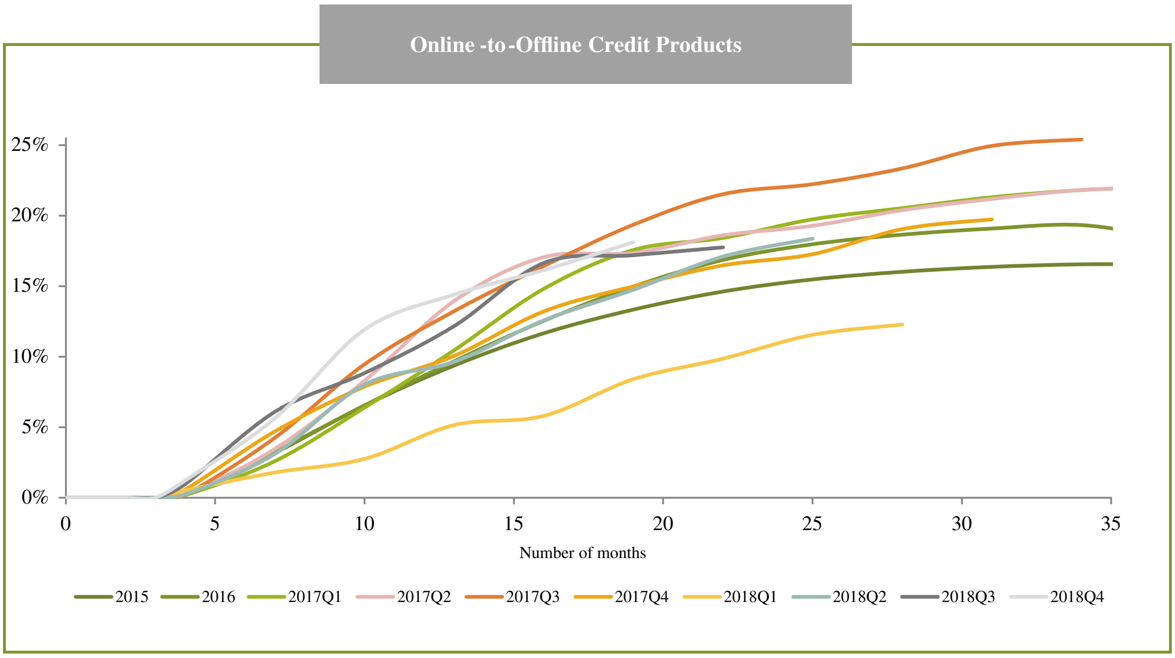
Asset Quality by Cohort

As part of regular loan performance review, we track the Cohort-Based M3+ Delinquency Ratio of loan cohorts originated by us. We applied our cohort-based categorization analysis on an increasing volume of our loan origination during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020.

The following diagrams set forth our Cohort-Based M3+ Delinquency Ratios by product groups as of September 30, 2020.

Cohort-Based M3+ Delinquency Ratios by Product Groups





Note:

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

SOURCES OF FUNDS

We have established diversified funding channels and have prudently managed our financial position. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, in addition to cash flows from our own operations, we obtained external funds from various sources to support our business operations and growth, including for strengthening our own capital to be used for our direct lending structure in China. Such funding channels included (i) issuance of Preferred Shares, (ii) issuance of the 2021 Notes; (iii) onshore loans, or loans of our PRC subsidiaries from PRC banks and PRC independent third-party corporations, and (iv) offshore loans, or loans of our Hong Kong subsidiary from individuals and corporations. We budgeted and used all of the proceeds from these funding sources to meet our operational needs and support our business growth, including replenishing the capital base of our PRC subsidiaries and other general corporate purposes. To support our operations in China, we injected funds that have been obtained offshore, such as proceeds from issuances of Preferred Shares, issuance of the 2021 Notes, and offshore loans from individuals and corporations, into our PRC subsidiaries in the form of capital contributions or shareholder loans in compliance with relevant laws and regulations. To the best of our knowledge and belief, none of the offshore loans provided to us are in breach of any applicable anti-money laundering laws or regulations in Hong Kong. We also confirm that, based on discussions with our legal counsel with respect to Hong Kong laws, the borrowing by our Hong Kong subsidiary and the injection of the borrowed funds into our PRC subsidiaries in the form of capital contributions or shareholder loans do not breach any Hong Kong laws applicable to companies generally.

Proceeds from Issuances of Preferred Shares

We had raised, on a cumulative basis, an aggregate of approximately RMB1.3 billion in cash from multiple issuances of Preferred Shares to various investors prior to our listing of our ordinary shares on the SEHK. On June 21, 2018, all of our Preferred Shares were automatically converted into our ordinary shares.

Onshore Loans

Banks

During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we utilized loans from multiple banks. As of September 30, 2020, we had no outstanding onshore loan from a PRC bank and we did not have any unutilized loan facilities from banks as all of our loan facilities from banks had been fully drawn down.

Independent Third-Party Corporations

As of September 30, 2020, we had onshore loans from three PRC independent third-party corporations with an aggregate balance of outstanding principal of RMB543 million.

Offshore Loans

Independent Third-Party Corporations

As of September 30, 2020, we had no outstanding offshore loans from independent third-party corporations.

Individuals

As of September 30, 2020, we had no outstanding offshore loans from individuals.

For further details of our borrowings, including their maturity profile, see "Financial Information — Indebtedness — Borrowings."

IT INFRASTRUCTURE

We have been investing heavily in designing and upgrading our state-of-the-art IT infrastructure, which has been designed to meet the demands of our business growth, support our risk-based pricing and overall credit-plus-alternative data business approach, and ensure the reliability of our operations and the information security of our systems. We continue enhancing the reliability and scalability of our IT infrastructure to provide borrowers, our funding partners and our strategic partners a convenient and efficient financing experience.

Research and Development

Our research and development team primarily focuses on improving the efficiency and user experience of our mobile apps and other product interfaces and designing new product interfaces to support product development. Our research and development team consists of three divisions: (i) the first division, which is responsible for development of core business systems and loan servicing systems, (ii) the second division, which is responsible for development of *Hummingbird* and other financial technological innovation, and (iii) the third division, which is responsible for the maintenance of our in-house technology needs. Our research and development expenses are primarily comprised of employee benefits expenses of our research and development personnel. We incurred RMB74.4 million, RMB74.1 million, RMB92.4 million and RMB53.0 million in research and development expenses in the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, respectively. The increase of our research and development expenses was primarily due to (i) an increase in employee benefit expenses for research and development personnel, and (ii) an increase in expenses to develop scorecards and online credit products in connection with the transformation into and expansion of our online operations. During the nine months ended September 30, 2020, our research and development expenses have decreased due to overall cost saving in respect of non-essential research and development expenses. For further details of our research and development expenses, see "Financial Information — Description of Major Components of Our Results of Operation — Expenses — Research and development expenses."

Cloud Services

We use private cloud and public cloud services throughout our business operations.

We have developed dedicated private cloud services to support our cloud computing needs and other cloud services by our business operations, particularly for risk management purposes. Our private cloud services are deployed using two structures: (i) infrastructure as a service (IaaS), which we use for cloud computing and cloud storage, and (ii) subscription as a service (SaaS), which we use to commercialize our *Hummingbird* system. For a discussion of our commercialization of our *Hummingbird* services, see "— Our Products and Services — Services to Funding Partners." We modularize frequently visited components of our systems such as scorecards, fraud detection, data aggregation and variable analytics as exportable cloud services that can be accessed by ourselves as well as our funding partners. We have actively taken comprehensive measures to ensure our compliance with relevant PRC secrecy laws and regulations. For further details, see "— IT Infrastructure — Security."

We also use public cloud services maintained by leading cloud service providers and build our data centers based on these public cloud services. We segregate our private cloud services and public cloud services to protect data security. We use public cloud services only in our mobile app interface and functions, promotional campaigns and other operations, which require significant computing capabilities but do not present high security demands.

Stability

We have implemented a disaster recovery plan that involves hosting our IT infrastructure in two separate locations in Shanghai and Shenzhen, China. We maintain system redundancy through a real-time data backup mechanism to ensure the reliability of our IT infrastructure. Our system adopts modular architecture that consists of multiple connected components, each of which can be separately upgraded and replaced without compromising the functioning of other components. We believe our IT infrastructure is highly stable. There was no material interruption of our IT infrastructure during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020.

Security

We are committed to maintaining a secure IT infrastructure. We have built a firewall that monitors and controls incoming and outgoing traffic and will automatically take reactive measures against threats. We also have a firewall between our private cloud services and public cloud services. We segregate our internal databases and operating systems from our external-facing services and intercept unauthorized access. We encrypt our data transmission, especially user data transmission, using sophisticated security protocols and algorithms to ensure confidentiality. We back-up our user data on a daily basis in separate back-up systems to minimize the risk of user data loss or leakage. In particular, we have adopted comprehensive policies and measures to comply with the relevant PRC secrecy laws and regulations, such as the Information Security Management Policy and the Information Classification and Security Management System. We also provide personal information security protection training to our staff, and require our staff to report any information security breach. Upon the occurrence of any information security breach, we will follow pre-determined procedures and systems to respond to any such incident in accordance with our policies and measures. We also have adopted and implemented a comprehensive set of rules and policies relating to information system integrity to prevent physical and cyberspace security breach. We perform periodic reviews of our IT infrastructure, identifying and mitigating problems that may undermine our system security.

The core business system of Vision Small Loan Shanghai has been officially certified as "Level 3" under the Information Security Protection Grading System (信息安全等級保護) sanctioned by the PRC government. We received our "Level 3" status with almost the highest score that a non-banking institution can receive, which we believe recognizes our solid information security measures.

SALES AND MARKETING

We source our customers primarily through online advertisements principally through two different channels, Feeds and Yi Ye He Zuo (Different Industry Cooperation), which helps us to build up our customer acquisition models and improve our customer acquisition efficiency.

Advertisement

Since 2019, we have used Feeds increasingly to channel our advertisements to social media platforms, making it an important supplementary marketing channel to traditional advertisements. We have built up collaboration relationships with leading media proprietors such as Tencent Data Cloud and Bytedance's modeling platform, which brings our products closer to customers' daily lives. In 2020, we expanded our marketing channels on different industry platforms. In order to acquire young and specific customers with customized products, we have been cooperating with different operators such as OPPO, Xiaomi and China Telecom. Through these different customer acquisition channels, we are also able to analyze the characteristics of social media and different internet platform users at regular intervals, which helps us reach more prime customers and improve cost efficiency.

INTELLECTUAL PROPERTY

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. As of September 30, 2020, we had 270 registered trademarks (including "維信金科," the Chinese characters of "VCREDIT"), 27 pending trademark registration applications, 35 patents pending registration, registered copyrights to 176 pieces of software and 22 pieces of works, and 22 domain names (including vcredit.com and kkcredit.cn).

COMPETITION

Competition in China's online consumer finance market is intense. We primarily compete with the independent online consumer finance service providers that mainly facilitate loans through their own platforms. China's online consumer finance market has been experiencing regulatory changes recently, particularly after the issuance of Circular 141 by the Online Finance Working Group and the P2P Online Lending Working Group in December 2017. Some of the online consumer finance service providers with licenses or qualifications required for small loan and financing guarantee business, including us, have the flexibility to adapt their business models to address these regulatory and market changes. We believe the key factors for our success in the online consumer finance market primarily include legally compliant operations, sufficient capital base, and effective risk management.

As competition in China's online consumer finance market intensifies, we believe that we are well positioned to take advantage of opportunities in this growing market. For additional details regarding the competitive landscape of industries in which we operate, see "Industry Overview."

CUSTOMERS

During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, our customers primarily include individual borrowers. We have a broad base of customers, and we do not believe we have customer concentration risks. Our top five customers accounted for less than 0.1% of our total income for 2017, 2018 and 2019 and the nine months ended September 30, 2020, respectively.

During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, none of our Directors, their associates or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of our Company's issued share capital) had any interest in any of our top five customers.

SUPPLIERS

Due to the nature of our business, we have no major suppliers. We purchase human resources services from employment agents, IT infrastructure hardware from computer and other hardware suppliers, software licenses from computer software suppliers, and various other services from payment transfer service suppliers, online traffic suppliers, advertising agencies, loan guarantee service suppliers and loan servicing professionals. We also pay trust management fees to the trust plans to which we subscribe subordinated tranches.

Purchases from our five largest suppliers for the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020 accounted for approximately 36.5%, 25.0%, 13.5% and 13.4% of our total expenses during those periods, respectively. Our largest supplier for the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020 accounted for approximately 24.8%, 14.3%, 3.5% and 3.2% of our total expenses during those periods, respectively.

During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, none of our Directors, their associates or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five largest suppliers.

EMPLOYEES

As of September 30, 2020, we had 600 full-time employees (excluding dispatched workers), all of whom were primarily based in China.

The following table sets forth the number of our employees by function as of September 30, 2020.

By Function	Number of Employees	Percentage
Frontline	41	6.8%
Customer service and collection	196	32.7%
Information technology	199	33.2%
Risk management	32	5.3%
General operations and support	132	22.0%
Total	600	100.0%

The following table sets forth the number of our employees by geographic region as of September 30, 2020.

By Region	Number of Employees	Percentage
Shanghai	394	65.6%
Chengdu	58	9.7%
Suzhou	66	11.0%
Hangzhou	60	10.0%
Others	22	3.7%
Total	600	100.0%

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our retention strategy, we offer employees competitive salaries, performance-based cash bonuses and other incentives. We also have an established management trainee program to train and retain young talent for our management personnel reserve.

We primarily recruit our employees through recruitment agencies, on-campus job fairs, industry referrals, and online channels. In addition to on-the-job training, we have adopted a training policy, pursuant to which management, technology, regulatory and other training are regularly provided to our employees by internally sourced speakers or externally hired consultants. Our employees may also attend external trainings upon their supervisors' approvals.

As required by PRC laws and regulations in respect of our PRC employment, we participate in housing fund and various employee social security plans that are organized by applicable municipal and provincial government authorities, including housing, pension, medical, work-related injury and unemployment benefit plans, under which we make contributions at specified percentages of the salaries of our employees.

We also purchase commercial health and accidental insurance coverage for our employees. Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of our business. We have adopted and plan to grant share-based incentive awards to our eligible employees in the future to incentivize their contributions to our growth and development.

We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020.

INSURANCE

We maintain standard insurance, including vehicle, life and disability, and medical insurance. We obtain our insurance from reputable insurance carriers in accordance with commercially reasonable standards. In line with general market practice, we do not maintain any business interruption insurance, insurance policies covering damages to our IT infrastructures or information technology systems or any insurance policies for our properties, which are not mandatory under PRC law. For a discussion of risks relating to our insurance coverage, see "Risk Factors — Risks Relating to Our Business and Industry — Our insurance coverage may not be adequate, which could expose us to a significant costs and business disruptions."

We believe that our insurance coverage is sufficient for its present purposes and is consistent with the insurance coverage of other online consumer finance service providers in China. We periodically review our insurance coverage to ensure that it remains to be sufficient. During the years ended 2017, 2018, 2019 and the nine months ended September 30, 2020, we did not make any material insurance claims relating to our business.

PROPERTIES

Our headquarters are located at Suite 1918, 19/F, Two Pacific Place, 88 Queensway, Hong Kong. Our principal business office in China is located at 28/F, Shanghai Landmark Center Tower 1, 88 Sichuan North Road, Shanghai 200085, China. As of September 30, 2020, we owned three office properties in Suzhou, China with an aggregate gross floor area of 583.12 square meters, and leased approximately 14 properties in Hong Kong and Hangzhou, Shanghai, Chengdu and various other cities in China with an aggregate gross floor area of approximately 13,609.44 square meters.

Our owned properties in China serve as our offices and our leased properties in Hong Kong and China serve as our offices, call centers and data centers. These properties are used for non-property activities and are principally used as office premises for our business operations. We have obtained the building ownership certificates for our self-owned properties in China. We believe that there is sufficient supply of properties in Hong Kong and China, and thus we do not rely on existing leases for our business operations.

As of September 30, 2020, none of our lease agreements have been registered with the competent governmental authority. Our Directors believe that the failure to register the lease agreements will not have a material adverse effect on our business, financial condition, and results of operations, because it will not affect our rights and obligations under the lease agreements and as against the lessors. For a discussion of risks relating to property interest defects, see "Risk Factors — Risks Relating to Doing Business in China — Certain of our leased property interests may be defective and we may be forced to relocate operations affected by such defects, which could cause significant disruption to our business and have a negative impact on our operation and financial results."

As of September 30, 2020, each of our property interests had a carrying amount less than 15% of our consolidated total assets.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

We do not operate any manufacturing or warehousing facilities. Therefore, we are not subject to significant health, work safety, social or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after approval by our legal department, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we had not been subject to any fines or other penalties due to non-compliance with health, work safety, social or environmental regulations.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We initiate legal proceedings from time-to-time in the ordinary course of our business. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we initiated approximately 3,497 legal proceedings to recover delinquent payments from our borrowers with an aggregate amount of RMB213 million, of which we successfully recovered RMB6 million as of September 30, 2020. We obtained favorable court judgments on approximately 2,677 of these approximately 3,497 legal proceedings, with approximately 816 legal proceedings pending as of September 30, 2020. Of the RMB216 million not recovered as of September 30, 2020, RMB140 million was relating to the approximately 2,677 legal proceedings in which we obtained favorable judgments or settlements, and RMB76 million was relating to the approximately 816 pending legal proceedings. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we were not involved in any material litigation as a defendant.

Taking into account our experience and track record in handling delinquent payments, we believe that these legal proceedings initiated by us do not have any significant impact or pose any material risk to our business. As of September 30, 2020, there are no litigation or arbitration proceedings brought by us, or pending or threatened against us or any of our Directors, that could have a material adverse effect on our financial condition or results of operations.

Anti-Money Laundering Procedures

China's anti-money laundering regulatory regime requires financial institutions and certain non-financial institutions with anti-money laundering obligations to establish sound internal control policies and procedures with respect to monitoring and reporting of any suspected money laundering activities. Our PRC Legal Advisor has advised us that we are subject to certain general anti-money laundering requirements specified in the Internet Finance Guidelines. For a discussion of China's anti-money laundering laws and regulations, see "Regulations — Regulations Relating to Anti-money Laundering."

We have established certain standard procedures as part of our due diligence and risk assessment procedures to ensure that our customers have an ascertainable needs for financing. These procedures include: (i) taking multiple identity verification measures against each loan applicant; (ii) reviewing the purpose of loans specified by the loan applicant; (iii) performing comprehensive analysis to assess the money-laundry risks of the loan applicant; (iv) identifying and monitoring suspicious transactions; (v) reporting the identified suspicious transactions to relevant government authorities (vi) properly maintaining borrower information and transaction records for at least 5 years; and (vi) providing ongoing anti-money laundering training to our employees.

As part of our risk management procedures, we also ensure that loans from us or from our financing partners are deposited to the correct borrowers' bank accounts and use reputable commercial banks as intermediaries for settlement and payment to further reduce money laundering risks.

The Directors are of the view that our standard measures are capable of assisting us to be reasonably alert to potential money laundering risk exposure and to take any appropriate measures.

Compliance with Circular 141

Issued on December 1, 2017, Circular 141 sets out the principles and new requirements for the conduct of "cash loan" businesses by small loan companies, P2P platforms and banking financial institutions. Since then, we have adjusted some of our operations to meet certain new requirements under Circular 141, while the rest of our operations had been compliant with PRC laws and regulations before and after the issuance of Circular 141. The new loans originated under all of our cooperation agreements executed after the issuance of Circular 141 have been compliant with the requirements under Circular 141.

As advised by our PRC Legal Advisor and based on the confirmation from the competent PRC government authorities, save for the average APR of the loans originated by us after August 20, 2020 which may be required to be adjusted following the issuance of the Judicial Interpretation Amendment, we believe that our business currently complies with PRC laws and regulations, including Circular 141, in all material aspects. Except for loans facilitated under certain existing cooperation agreements with our funding partners that were executed prior to the issuance of Circular 141([1]), the following table sets forth our compliance status with respect to certain new requirements under Circular 141.

Circular 141 Requirements Demanding Our Adjustments	Our Compliance Status Following Adjustments
• A financial institution that offers cash loans through loan facilitation is prohibited from accepting credit enhancement or other similar services from third parties that lack requisite licenses to provide guarantees.	We provide credit enhancement or other similar services through our licensed financing guarantee subsidiary, VC Guarantee and other cooperated financing guarantee companies.
• A financial institution that offers cash loans through loan facilitation is prohibited from outsourcing credit assessment, risk control, and other key functions to a loan facilitation operator.	To our best knowledge and belief, the funding partners that we work with currently have their own independent credit assessment and risk control and do not outsource these functions to, or solely rely on, us.
• A financial institution that offers cash loans through loan facilitation is prohibited from allowing a loan facilitation operator to charge any fees from borrowers.	We currently do not charge any fees from borrowers as a loan facilitation operator for our loan facilitation business. We charge loan facilitation service fees from our funding partners.
• The aggregate borrowing cost in the form of interest and other fees should be annualized and subject to the limit on interest rate of private lending provided by the PRC Supreme People's Court, though Circular 141 is unclear about the calculation method for the aggregate borrowing cost.	Save for the average APR of the loans originated by us after August 20, 2020 which may be required to be adjusted following the issuance of the Judicial Interpretation Amendment, we are currently compliant with this requirement for all loans originated by us, using our own method for calculating the aggregate borrowing cost.

Note:

(1) As advised by our PRC Legal Advisor and based on the confirmation from relevant governmental authorities, we believe that the loans that we facilitated under certain existing cooperation agreements with our funding partners that were executed prior to the issuance of Circular 141 are not subject to Circular 141.

LICENSES, PERMITS AND APPROVALS

Our PRC Legal Advisor has advised that, during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we had obtained all requisite licenses, permits, approvals, and certificates from the relevant government authorities that are material for our business operations in China. The following table sets forth details of our material licenses and permits.

License/Permit	Holder	Issuing Authority	Issuance Date	Expiry Date
Approval on Small Loan Business Scope(1)	Vision Small Loan Chengdu	Sichuan Financial Service Office	September 27, 2011	December 7, 2031
Approval on Small Loan Business Scope(2)	Vision Small Loan Shanghai	Shanghai Financial Service Office	September 9, 2013	September 15, 2044
Financing Guarantee Institution Operation License	VC Guarantee	Zhejiang Economic and Information Committee	November 13, 2017	November 12, 2022
Approval on Financing Lease Business Scope	Vision Financial Leasing(3)	Suzhou Industrial Committee	June 28, 2011	July 18, 2041

Notes:

(1) Vision Small Loan Chengdu was permitted by Sichuan Financial Service Office to conduct online small loan business on March 4, 2016.

(2) Vision Small Loan Shanghai was permitted by Shanghai Financial Service Office to conduct online small loan business and issued its loan in May 2015.

(3) As of September 30, 2020, Vision Financial Leasing was not operating any financing lease business.

We confirm, and our PRC Legal Advisor has advised us that, we have fulfilled all relevant regulatory requirements in obtaining the various licenses, permits or approvals that are material for our business operations in China. We are of the view that, to the best of our knowledge and belief, there is no material risk that any of such licenses, permits, and approvals will be revoked prior to their expiration dates. In addition, as advised by our PRC Legal Advisor, our business operations are not subject to any foreign restriction in accordance with relevant PRC laws and regulations and the Special Administrative measures for Access of Foreign Investment (Negative list) (2020 Edition (《外商投資准入特別管理措施(負面清單)(2020年版))》) and we are not required to obtain a VATS License. Therefore, as advised by our PRC Legal Advisor above and based on the confirmation from relevant governmental authorities, we do not violate any mandatory PRC laws and regulations in any material respect for our business operations.

For further information relating to the risks associated with obtaining and renewing licenses, permits, and approvals in China, see "Risk Factors — Risks Relating to Our Business and Industry — Failure to obtain, renew, or retain requisite licenses, permits, or approvals may adversely affect our ability to conduct or expand our business" and "Risk Factors — Risks Relating to Our Business and Industry — We may be required to obtain value-added telecommunication business licenses, which may be time consuming and costly and interrupt our business."

AWARDS AND RECOGNITION

During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we have received awards and recognition for our innovation in China's consumer finance market. Some of the significant awards and recognition we have received are set forth below.

Awards/Recognition	Year	Awarding Agency
Top 30 Technology Service Provider in China Banking Industry (中國銀行業科技服務商 Top 30)	2020	LingYi Caijing (零壹財經)
Annual Excellent Financial Technology Company (年度優秀金融科技公司).	2020	China Golden Tripod Awards (中國金鼎獎)
The Best TMT Listed Company (最佳TMT股公司)	2020	The Fourth Annual Golden Hong Kong Stocks Awards Ceremony (第四屆金港股年度頒獎典禮)
Annual Excellent Financial Technology Company (年度優秀金融科技公司)	2019	China Golden Tripod Awards (中國金鼎獎)
Top 30 Financial Technology Service Provider in China Banking Industry (中國銀行業金融科技服務商Top 30)	2019	Yiben Caijing (一本財經)
Most Valuable Consumer Finance Company (最具價值消費金融公司).	2017	YiCai Financial Technology Summit (一財金融科技峰會)
Leading Enterprise with Most Technological Strength (最具技術力領軍企業)	2017	China FinTech Summit (中國FinTech大會)
Excellent National Small Loan Company (全國優秀小額貸款公司).	2017	China Microcredit Companies Association (中國小額貸款公司協會)

OVERVIEW

As a consumer finance service provider in China, we are subject to a variety of risks in our business operations, including credit risk, liquidity risk, legal and compliance risk, market risk, and operational risk. Among these risks, credit risk is our primary exposure. The overall objective of our risk management system is to maintain and optimize robust and efficient risk management and internal control to ensure the security of our operations and assets, to achieve a balance between business growth and risk control, and to protect the long-term interests of our shareholders.

We have established a prudent risk management system to identify, manage and mitigate our risk exposure, primarily through technology-enhanced comprehensive borrower due diligence, independent information review, and multi-tiered authority-based approval processes.

We have implemented the following measures to achieve our risk management objectives:

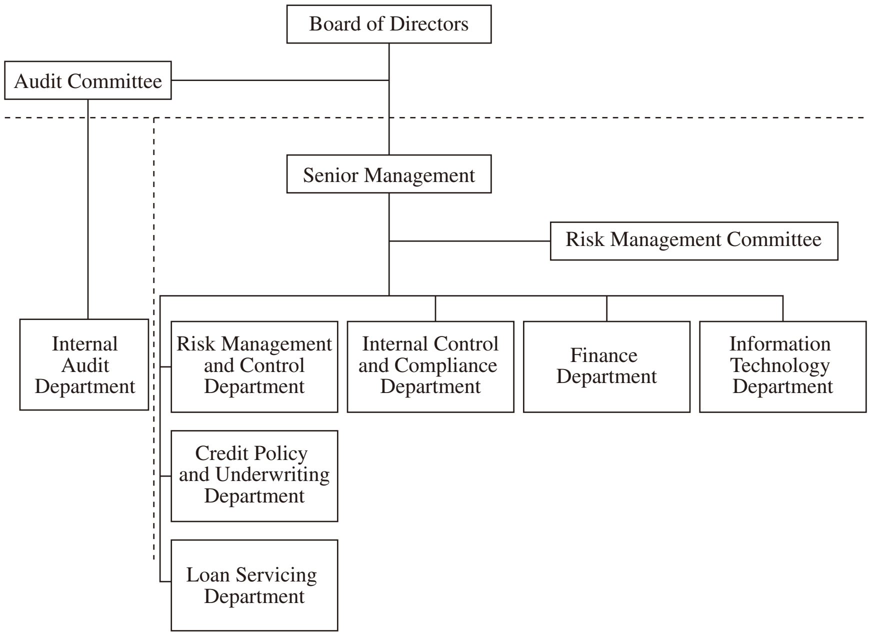
- continue optimizing our credit-plus-alternative data approach to allocate sufficient resources and priority to risk management;
- continue maintaining selectivity in screening and assessing borrowers, focusing on under-served prime and near-prime borrowers;
- continue enhancing *Hummingbird's* capabilities and developing multi-dimensional scorecards to support risk management;
- continue refining our sophisticated risk-based pricing capabilities; and
- continue cultivating a cohesive culture and credit-risk-centric mindset.

We believe that our long-term business success in China's dynamic economic and regulatory environment depends on our ability to effectively manage our overall risk exposure at a competitive level relative to the scale of our operations. Leveraging our industry experience and proprietary technology, we continue working towards an optimal balance between manageable risk levels and efficient fund flows to expand our business.

RISK MANAGEMENT FRAMEWORK

We have established a comprehensive risk management framework in response to various risks that we have faced during more than a decade of business development. At the top of our risk management hierarchy is the Board of Directors, which oversees the execution of our risk management functions by our senior management and the Risk Management Committee. All of our internal departments assume risk management responsibilities corresponding to their respective functions. The following diagram sets forth our risk management structure.

RISK MANAGEMENT FRAMEWORK



Board of Directors

Our Board of Directors is ultimately responsible for our overall risk management. It approves fundamental risk management strategies and policies, assesses the effectiveness of our risk management system, and balances our business growth with our risk exposure. It performs its risk management functions by giving guidance and authorization to our Audit Committee and our senior management. For further details, see "Directors and Senior Management."

Audit Committee

The Audit Committee of our Board of Directors is primarily responsible for (i) overseeing our internal control, financial reporting, and internal audit, (ii) reviewing and assessing the implementation of our internal control rules and our internal audit procedures, and (iii) engaging independent external auditors. The Audit Committee reports to and makes recommendations to the Board of Directors. The Audit Committee comprises two independent non-executive Directors and one non-executive Director. For further details, see "Directors and Senior Management — Corporate Governance — Audit Committee."

Senior Management

The core of our senior management that executes the various risk management functions comprises our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and Chief Risk Officer. Our Chief Executive Officer chairs the Risk Management Committee and is in charge of management of all major risks. Our Chief Operating Officer is in charge of operational risk management; our Chief Financial Officer is in charge of liquidity risk, interest rate risk and exchange rate risk management; and our Chief Risk Officer is in charge of credit risk management. Our Chief Operating Officer, Chief Financial Officer, and Chief Risk Officer report to our Chief Executive Officer, and our Chief Executive Officer reports and makes recommendations on overall risk management operations to the Board of Directors. Our senior management is also responsible for the formulation and implementation of risk management strategies, policies and procedures as authorized by our Board of Directors. For further details, see "Directors and Senior Management — Senior Management."

Risk Management Committee

Our Risk Management Committee is led by our senior management to coordinate and execute the risk management process within our Group. It comprises our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Director of Risk Management and Control, Director of Credit Policy and Underwriting, and Director of Internal Control and Compliance. Our Risk Management Committee is responsible for reviewing and analyzing work status and other reports of the various risk management departments, facilitating coordination and cooperation among the various risk management departments, and improving our ongoing risk management methodology and practices. Our Risk Management Committee formally meets on a monthly basis to discuss risk management matters and decide on required actions. It also regularly holds meetings to synchronize the various risk management departments with respect to the day-to-day operations of risk management. For further details, see "Directors and Senior Management — Senior Management."

Risk Management and Control Department

Our Risk Management and Control Department is critical to the functioning of our risk management system. It reports to our Chief Risk Officer and carries out day-to-day risk management operations through eight teams. The data analytics team analyzes credit data and user-case-based alternative data that has been aggregated and processed through *Hummingbird* and conducts research of proprietary analytics technologies. The fraud detection and prevention team deploys anti-fraud measures by defining fraud indicators, establishing fraud detection and prevention rules, and importing external data for fraud detection and prevention. The Internet finance analysis team conducts research and analysis of the risk management trends of Internet finance to support ongoing improvement of our risk management measures. The modeling team works closely with our Information Technology Department to develop and improve our proprietary credit models and also participates in joint-modeling efforts with our business partners. The monitoring and testing team verifies, tests, monitors, and analyzes the performance of models. The management information system analysis team performs automated multi-dimensional analysis of data to support credit decisioning. The rules and strategies team formulates and develops decisioning rules and strategies for credit decisions. The post-loan analysis team analyzes repayment performance and risk indicia to support servicing and collection. Through its multi-dimensional involvement in risk management practices, the Risk Management and Control Department generates valuable feedback to further improve our risk management system.

Credit Policy and Underwriting Department

Our Credit Policy and Underwriting Department (i) formulates, refines, and updates credit policies with respect to all of our credit products, and (ii) supervises the execution of risk management policies by our credit product teams. It reports to the Chief Risk Officer and oversees credit policy execution. Following our "credit-plus-alternative" data approach, the Credit Policy and Underwriting Department performs a foundational function in our risk management system.

Loan Servicing Department

Our Loan Servicing Department plays an important role in our asset quality control. It is responsible for loan servicing and collection during all phases following loan delinquencies. It operates through four teams: collection call team, asset protection team, third-party collection team, and legal action team. Our Loan Servicing Department also have additional support teams to conduct quality checks of our daily operations, coordinate efforts with various other departments, and formulates loan servicing strategies.

Internal Control and Compliance Department

Our Internal Control and Compliance Department operates through three functional teams: the internal control team, the legal team, and the compliance team. The internal control team is primarily responsible for formulating and implementing internal control rules and procedures to standardize our business processes and to promote best corporate practices. It assesses our management policies and internal control procedures and provides appropriate recommendations to our senior management for ongoing improvement of our corporate governance. The legal team is responsible for our overall management of legal risk. Its core functions include conducting legal research and legal documentation review, providing relevant legal advice to our senior management, and managing legal risk by drafting, reviewing, approving and executing transaction documents. The compliance team is primarily responsible for ensuring the regulatory compliance of our business operations. It cooperates with regulatory authorities in their supervision and inspection, coordinates with the relevant internal departments to rectify any problems identified, and monitors any updates on external regulatory requirements.

Internal Audit Department

Our Internal Audit Department is supervised by the Audit Committee and operates independently from other internal departments. It regularly reports directly to the Audit Committee and conducts independent internal audit of the effectiveness of our risk management and internal control. The Internal Audit Department is authorized to perform comprehensive inspection, review, and assessment of all of our business process and corporate governance to identify deficiencies and other material issues including risk-related issues, and to provide recommendations for improvement and rectification. The Internal Audit Department also conducts follow-up of audits to ensure previously identified issues have been duly addressed and corrected.

Finance Department

Our Finance Department is also responsible for certain risk management functions, primarily addressing liquidity risk, interest rate risk, and operational risk. It formulates budgets and other financial planning, manages accounting policies and procedures, and reconciles accounts and the use of funds by other internal departments. In this role, the Finance Department works to maintain an appropriate level of cash flow, monitors our asset and liability structure, liquidity condition, solvency, and changes in our funding costs, and evaluates the impact of interest rate changes on our financial positions.

Information Technology Department

Our Information Technology Department is in charge of deployment, inspection, maintenance and upgrading of our IT infrastructure and information technology systems. It provides technical support for our risk management through *Hummingbird*. For a discussion of *Hummingbird's* capabilities and its core engines, see "Business — Proprietary Technology — Hummingbird."

CREDIT RISK MANAGEMENT

Credit risk is one of the major risk exposures in our business operations. It arises from a borrower's inability or unwillingness to meet its financial obligations to make timely payments under the loans granted or facilitated by us. Leveraging our proprietary *Hummingbird* system and our extensive experience in China's online consumer finance market, we have developed a comprehensive credit assessment system that is tailored to our business.

We currently follow the strategies and principles described below to achieve our credit risk management objectives.

- *Underserved prime and near-prime borrowers*. We focus on prime and near-prime borrowers underserved by traditional financial institutions as our target borrowers. KK Credit, which is a credit card balance transfer product, demonstrates our focus on such borrowers, as we believe credit card holders generally have better ability and willingness to make timely repayment than borrowers without credit cards.

- *Repayment by installments*. All of our credit products require repayment by installments. We believe installments help ease pressure on borrowers' repayment as compared to revolving credit facilities, and thus help control the risk of borrower default.

- *Short terms*. We typically set short terms for our credit products to preserve flexibility to deal with any sudden change in the economic or regulatory environment. During the nine months ended September 30, 2020, the weighted average term of our loans was approximately 8.9 months, and approximately 93% of the loans we originated had terms below or equal to 12 months.

- *Manageable amounts*. We focus on granting or facilitating loans in manageable amounts. During the nine months ended September 30, 2020, the average size of our loans was approximately RMB11,813, and approximately 67% of the loan transactions we originated were below RMB15,000.

- *Employee risk awareness*. We have cultivated a cohesive culture with each employee having strong risk awareness and taking ownership in the applicable risk management function.

Selection of Target Borrower Groups

We keep credit risk management in mind in selecting target borrower groups and designing our credit products. Our credit products are designed based on multi-dimensional scorecards, and each of our scorecards is developed in consideration of a number of factors including the specific target borrower group that the scorecard was developed for. We have developed versatile borrower group selection criteria based on the specific user cases that our products are designed to serve. These criteria typically involve an assessment of prospective borrowers' official credit records, source of income, stability of cash flow, and additional alternative data depending on the specific user cases, which typically constitute some of the effective variables that were factored in the relevant modeling and scorecard development.

Our credit-plus-alternative data approach focuses on underserved prime and near-prime borrowers. We make appropriate adjustments to optimize our borrower selection criteria to help achieve this objective.

Credit Assessment and Approval

We conduct credit assessment of loan applicants and make credit decisions based on our established criteria using our "smart lending" technology with the assistance of *Hummingbird*. Our credit assessment and approval procedures are largely processed through *Hummingbird* and are therefore highly automated. For a discussion of our *Hummingbird* and our "smart lending" technology, see "Business — Proprietary Technology." With respect to each loan application submitted, we go through a comprehensive process that largely consists of four steps: (i) preliminary screening of loan applicants to verify their identities, (ii) due diligence of loan applicants for fraud detection and prevention, (iii) review of due diligence findings and other information about the borrowers and quantification of credit risk exposure through the applicable scorecards, and (iv) reaching credit decisions primarily based on the scorecard output. We implement this process using a holistic approach and there are no artificial boundaries between the steps. For example, in addition to fraud detection and prevention measures implemented during the second step, we also conduct preliminary anti-fraud screening as part of the preliminary screening during the first step, and our anti-fraud measures continue working throughout the process after a loan applicant passes the second step.

Preliminary Screening

Our credit assessment process begins with the preliminary screening upon the intake of loan applicants. The objectives of the preliminary screening are to verify loan applicants' identities and to perform preliminary anti-fraud screening. The preliminary screening is generally conducted online via *Hummingbird*.

Identity verification is the primary objective of our preliminary screening because it extracts the fundamental information required for further credit assessment. Each loan applicant is required to provide a scanned copy of his or her PRC national identification card, a mobile phone number, at least one bank card, and a live facial scan. *Hummingbird* reads and records the PRC national identification card information through its OCR technology and checks against the PRC national identification database maintained by the PRC Ministry of Public Security. The loan applicant's mobile phone number is recorded and verified by checking the mobile phone number database maintained by the applicable mobile telecommunications operator and is also matched against the PRC national identification information. The loan applicant's bank card information provides an extra layer of cross-check for identity verification. The live facial scan is processed by *Hummingbird* using facial recognition technology to generate additional identification elements for further cross-checks. Each loan applicant must successfully complete these measures, at a minimum, to be considered identity-verified online and to proceed to further steps. With the use of our *Hummingbird* system, these measures can often be completed almost simultaneously within a few minutes.

In addition to the foregoing minimum measures, our preliminary screening also involves the following measures for additional identity verification and preliminary anti-fraud purposes.

- *Interception*. *Hummingbird* intercepts loan applications that fail to meet minimum requirements based on predetermined rules and policies. A loan application that misses any required item cannot proceed further to next steps. A loan application may be terminated if certain attributes of the applicant do not meet our mandatory requirements for target borrowers and the specific credit product being applied for. A loan application that includes unrecognized or suspicious content will be suspended pending supplemental information and cannot proceed further to next steps unless supplemental information is provided to us within two business days.

- *Existing borrower check*. Each loan applicant's identity is run against *Hummingbird's* internal records to check whether the loan applicant is an existing borrower that has a current or past transaction with us and will be marked accordingly. If a loan applicant appears to be an existing borrower, the consistency of all fields of the cross-check is analyzed for identity verification and anti-fraud purposes.

- *External verification*. Based on the applicant's identity information, *Hummingbird* aggregates the relevant data from external sources, such as databases maintained by the PRC Supreme People's Court, the PRC State Administration for Industry and Commerce, the PRC Social Security Fund, and the PRC Ministry of Housing and Urban-Rural Development. *Hummingbird* then conducts an initial review of the relevant records.

- *Telephone-based verification*. We verify the mobile phone number and any additional telephone numbers of the loan applicant provided and attempt to make verification calls to confirm the loan applicant's identity.

- *CCRC consumer credit database access*. If a loan applicant passes most of the other measures of the preliminary screening and appears to be a promising prospective borrower, we will attempt to request the applicant's official credit records. If a loan applicant does not have any official credit records or the analysis results of the official credit records do not appear to satisfy the minimum threshold required for the relevant credit product, the application likely will be terminated.

Due Diligence

We conduct due diligence on loan applicants online through *Hummingbird* to obtain detailed information for thorough analysis of fraud detection and prevention and prepare for credit risk quantification. The various data aggregated during the preliminary screening is reviewed and analyzed more thoroughly. Additional data, including user-case-based alternative data, is obtained depending on the relevant credit product being applied for.

Fraud detection and prevention is the primary objective of our due diligence, because performing credit risk quantification on fraudulent applicants, even with verifiable identities, is a waste of our resources and may result in significant losses. Our due diligence process primarily includes the following measures.

- *Second-tier review*. We perform a second-tier review of all data and records resulting from the preliminary screening of a loan applicant. This second-tier review follows a higher standard compared to the preliminary screening and therefore may capture additional suspicious issues in connection with a loan applicant. For example, we check whether a temporary PRC national identification card has been provided and may implement additional measures; we check the contribution status of social security fund and housing fund against the loan applicant's employer information; we verify whether any bank statements provided actually reflect salary payment; and we verify all information on any property title certificates provided to ascertain whether the title is good. In general, we perform a clean-slate second-tier review from the fraud detection and prevention perspective to ensure the data and record previously gathered is thoroughly inspected.

- *Multi-level risk lists*. We maintain our own multi-level risk lists and have access to third-party high risk lists for direct interception and further anti-fraud cross-analysis. We have been working to expand our multi-level risk lists covering proven and suspicious fraudulent identities and other indicators. As of September 30, 2020, our own multi-level risk lists covered more than 9 million combined natural person and enterprise identities, phone numbers, and International Mobile Equipment Identification (IMEI) numbers. We also access external high risk lists from five suppliers.

- *Interception and anti-fraud engines*. We process the information gathered on a loan applicant through *Hummingbird's* interception engine and anti-fraud engine. For a discussion of *Hummingbird's* core engines, see "Business — Proprietary Technology — Hummingbird — Core Models and Engines." *Hummingbird's* interception engine works uninterruptedly to block applicants that have passed our preliminary screening but are otherwise considered undesirable based on additional information gathered. *Hummingbird's* anti-fraud engine performs complicated cross-analysis and calculation based on such information, which is filtered by extensive rules and composite rules managed by *Hummingbird's* policies and rules engine, produces an anti-fraud report and, where applicable, rejects the relevant applicants.

Preparation for credit risk quantification and debt-to-income ratio assessment is the secondary objective of our due diligence. The information gathered during due diligence that is relevant to either credit risk quantification or debt-to-income ratio assessment is processed to determine or calculate interim effective variables to prepare for further processing. An application that is not blocked during the due diligence will proceed subject to our credit risk quantification and credit decisioning.

Credit Risk Quantification

Credit risk quantification is critical to our credit assessment and approval process. We use a set of proprietary, specifically designed scorecards to quantify the credit risk of each loan applicant and to provide a basis for pricing the relevant credit products. We introduced our first credit scorecard after years of data accumulation and effective variable testing in September 2012. Since January 2015, our credit risk quantification has been based exclusively on scorecards. As of September 30, 2020, *Hummingbird* was equipped with over 125 unique scorecards, covering dimensions such as official credit records, mobile phones, bank cards, e-commerce, and other perspectives. For a discussion of our scorecards, see "Business — Proprietary Technology — Data Analytics — Scorecards."

Our scorecards form part of our "smart lending" technology. Leveraging *Hummingbird's* big data engine and user portrait engine, each scorecard transforms a loan applicant's identity information, official credit records, and alternative data depending on the relevant scorecard's dimension, into quantifiable information to be processed using statistical analysis systems (SAS). We have developed proprietary credit models largely following the logic of FICO, and refined these proprietary credit models after rounds of testing of effective variables. A finalized scorecard is able to quantify a loan applicant's future performance of loan obligations and to predict the level of credit risk by generating a credit score.

We typically use multiple scorecards to perform comprehensive credit risk quantification. As we generally obtain official credit records for almost all loan applicants, we primarily use the credit record scorecard and other related risk scores to quantify whether a loan applicant is positioned within the high-risk range, low-risk range, or the indeterminate range. To further enhance the accuracy of our scoring, particularly when a loan applicant is positioned within the indeterminate range after the application of the credit record scorecard, we apply other scorecard from a different dimension that is relevant to the user case of the credit product as well as the loan applicant. The application of additional dimensions of scorecards will further quantify, within the indeterminate range, additional layers of high-risk, low-risk and indeterminate ranges, so that the coverage of the indeterminate range is reduced, increasing the chance of positioning the loan applicant in either a high-risk range or a low-risk range. We may apply additional dimensions of scorecards to further reduce the coverage of the indeterminate range until we are able to quantify the loan applicant's credit risk.

We have been developing our multi-dimensional scorecard system to increase our credit approval rate and reduce delinquency ratios. As our business growth continues, we have more loan applicants generating more credit information and user-case-based alternative information for effective variable analysis and modeling adjustment using *Hummingbird's* machine learning engine.

Credit Decisioning

We make credit decisions based on the output of the application of multiple dimensions of scorecards. This application of scorecards refines our credit decision trees and enhances our ability to provide advanced risk-based pricing. Our credit decisioning is also highly automated and realized through *Hummingbird's* decisioning engine in conjunction with its policies and rules engine. As of September 30, 2020, *Hummingbird* had approximately 10,947 combined credit decisioning rules.

Hummingbird deploys automated decisioning rules based on the credit policies corresponding to various credit products. Credit policies primarily include our admission policy, credit rating policy, debt-to-income ratio assessment policy, credit limit policy, and pricing policy.

- *Admission policy*. Our admission policy determines scoring thresholds primarily based on analysis of a loan applicant's basic attributes (such as age, education background, and PRC household registrations), official credit records, specifics about mobile phone use, and any applicable historical delinquencies.

- *Credit rating policy*. Our credit rating policy categorizes a loan applicant based on the results of the application of multi-dimensional scorecards plus analysis of any applicable historical delinquency to reach a conclusion on a credit rating.

- *Debt-to-income ratio assessment policy*. Our debt-to-income ratio assessment policy functions through debt assessment and income prediction. This policy has been integrated in *Hummingbird's* debt-to-income ratio assessment module. After debt assessment and income prediction is completed, a debt-to-income ratio is calculated, which enables us to look into excessive simultaneous loan applications and hidden liabilities, and compare the results to our loan tolerance limits. For a discussion of *Hummingbird's* debt-to-income ratio assessment module, see "Business — Proprietary Technology — Hummingbird — Major Tasks — Debt-to-income ratio assessment."

- *Credit limits and pricing policies*. Our credit limit policy imposes additional limits or other restrictions on the amount of credit granted to a successful loan applicant based on the credit rating. We achieve risk-based pricing depending on the varying risk levels of borrowers and calculation through our profit forecast model.

As part of regular loan performance review, we track the Cohort-Based M3+ Delinquency Ratio of loan cohorts originated by us over time. We applied our cohort-based categorization analysis on an increasing volume of our loan origination during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020. For the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, approximately 96.0%, 93.2%, 95.6% and 97.6%, respectively of our respective loan origination volumes were subject to this cohort-based categorization analysis. For further details, see "Business — Proprietary Technology — Hummingbird — Major Tasks."

For each successful loan applicant we generate a credit decision that includes (i) a credit score and its corresponding credit rating category, (ii) a credit limit, and (iii) a credit term.

Settlement

After a loan applicant receives a credit approval, he or she is prompted to read a set of loan contracts and other related legal documents that have been reviewed and confirmed by our legal team. The loan applicant is then required to provide a signature to execute all these loan contracts and other related legal documents. Only after execution of these legal documents will we begin the settlement process.

Loan Servicing Management

We apply comprehensive loan servicing management measures to review the integrity and efficiency of our credit assessment and approval process, monitor the quality of our loan assets, and pursue loan servicing according to the loss recovery protocol. We integrate these measures into our continuing asset management efforts to maintain a low level of credit risk exposure.

Regular monitoring of loan portfolio

We regularly monitor the performance of our loan portfolio using the following procedures.

- *Backtracking review mechanism (回溯機制)*. We have implemented a multi-tiered backtracking review mechanism to go back to our outstanding loans and review their performance status on a monthly basis. First, we compile a list of loans that require our attention and conduct internal credit risk interviews of the relevant employees to examine the integrity of the previous credit assessment and approval process. Moreover, with respect to loans that are delinquent for at least three installments, we conduct a backtracking review and internally report the conclusions in the next month. Furthermore, we also review loans that are delinquent for at least two installments after four installment periods and loans that are delinquent for at least three installments after six installment periods, recognizing them as high-risk loans. Finally, we share the latest fraudulent practices discovered during loan servicing to train our post-loan management team.

- *Risk warning mechanism*. Our risk warning mechanism covers all loans that are not classified as non-performing. We routinely monitor our operations to identify credit risk signals, propose contingent plans, and continuously monitor any further development. We also promptly report any relevant events to the CCRC.

Regular assessment of asset quality

We assess the quality of our loan assets by monitoring asset quality indicators including the delinquency ratios. For further details, see "Business — Asset Quality and Provisioning Policy — Asset Quality." In determining impairment allowances, for a loan that is individually significant, we assess it individually for impairment. For a loan that is not individually significant, we assess it individually for impairment or include it in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. If we determine that no objective evidence of impairment exists for an individually assessed loan (whether significant or not), we include the loan in a group of loans with similar credit risk characteristics and collectively reassesses them for impairment. Loans for which an impairment loss is individually recognized are not included in a collective assessment of impairment. For a discussion of our provisioning policy, see "Business — Asset Quality and Provisioning Policy — Provisions for Loans to Customers."

Loss recovery

Depending on the length of delinquency of each particular loan, we take various loss recovery measures, including in-house loan servicing, third-party collection, and legal enforcement through litigation to recover, minimize or mitigate our losses.

- *In-house loan servicing*. Our in-house loan servicing team proactively takes appropriate measures to clearly communicate with delinquent borrowers on a timely and regular basis, particularly during the first month after a repayment delinquency. We have a set of loan servicing protocols pursuant to which our in-house loan servicing team elevates the communication methods from telephone calls and text messages to collection notices, attorney letters and more serious forms as the delinquency period prolongs. According to our loan servicing protocols, measures that may constitute fraud, threats, harassment or discrimination are strictly prohibited, and all of our in-house loan servicing team members undertake that they will always perform their work within the scope allowed by the applicable laws and regulations. After the delinquency reaches 3 months or more, our in-house loan servicing team attempts to reach the relevant borrowers through onsite visits. We typically transfer loan servicing to third-party collection agencies or pursue legal proceedings after the delinquency reaches 5 months or more.

- *Third-party collection*. We contract third-party collection agencies to follow up on certain loans that are delinquent for 5 months or more and for which we do not intend to pursue legal proceedings. We screen third-party collection agencies with strict standards, assess their reputation and compliance records, and under our service agreements with them we require them to comply with laws and regulations, preserve confidentiality, refrain from using excessive or otherwise inappropriate measures. In addition, we monitor and assess the compliance status and reputation of our third-party collection agencies regularly, and are entitled to unilaterally terminate their service agreements if their conduct deviates from the permitted scope. Our third-party collection agencies receive performance-based commissions, which can be reduced if we receive and verify serious complaints from borrowers.

- *Legal proceedings*. We pursue legal proceedings in our collection effects as a last resort. We typically pursue legal proceedings against borrowers with loans of at least RMB50,000 that have been delinquent for 6 months or more. We may also pursue legal proceedings against borrowers with loans of more than RMB50,000 on a case-by-case basis, but in any event no later than 18 months after delinquency. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we initiated approximately 3,497 collection legal proceedings, and obtained favorable judgments in approximately 2,677 cases, with approximately 816 cases still pending as of September 30, 2020.

If loans are delinquent for 12 months or more, we may consider writing off the relevant transactions according to our provisioning policy.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that cash and cash equivalents are insufficient to meet liabilities as they fall due. It may arise from mismatches in balance or maturity with respect to financial assets and liabilities. We have prudently managed our balance sheet to prevent balance or maturity mismatches of financial assets and liabilities so as to minimize our exposure to liquidity risk. We manage our liquidity risk primarily through the matched funding approach. We aim to early identify the possible structural liquidity risk arising from maturity mismatches of our financial assets and liabilities and assess feasible countermeasures to ensure our net liquidity.

LEGAL AND COMPLIANCE RISK MANAGEMENT

Legal and compliance risk is the risk of being subject to legal and regulatory sanctions or other penalties for failure to comply with relevant laws, regulations and government policies. Our business operations are subject to complex PRC laws and regulations and practices and requirements by local government authorities. These PRC laws, regulations, practices and requirements may change from time to time. If we fail to operate our business within the legal parameters or otherwise fail to promptly and appropriately respond to regulatory changes, our business development may be significantly impeded. For a discussion of the relevant PRC laws and regulations under which we operate, see “Regulations.”

Under our comprehensive Internal Control and Compliance Department, our legal team and compliance team work together to conduct compliance reviews of our operations, examine our lending procedures for integrity, provide legal and compliance guidance on other business departments, and provide regulatory updates and legal training to our employees.

We may be subject to additional legal risks, including the risk of incurring legal liability arising from breaches of contracts, infringements of the legal rights of other persons or otherwise in connection with our business activities. We have established procedures relating to legal document reviewing and drafting, external counsel engagement and management, and other legal perspectives. In our business operations, we routinely provide internal legal advice to our senior management to facilitate their decision-making process. Our Loan Servicing Department also plays a role in our legal proceedings for collection purposes to reinforce our loss recovery plan.

MARKET RISK MANAGEMENT

Market risk refers to the risk resulting from an adverse movement of market prices. Our market risk primarily includes interest rate risk and foreign exchange rate risk. Our Finance Department is responsible for identifying, measuring, monitoring and reporting market risk and taking corresponding measures to minimize its impact on us.

Interest Rate Risk

The interest rate risk that we face is the risk of changes in market interest rates. The financing interest expenses we pay are benchmarked against the official lending rates promulgated by the PBOC during the comparable period. The key determinants of our exposure to the risk of changes in market interest rates arises primarily mismatch between the maturity periods of our assets and liabilities and inconsistent pricing basis.

We primarily manage interest rate risk by monitoring the sensitivity of projected net interest type income under varying interest rate scenarios. We endeavor to mitigate any impact of prospective interest rate movements that could reduce future net interest type income, while balancing the cost of such risk mitigation measures.

Foreign Exchange Rate Risk

The foreign exchange rate risk that we face is the risk that we may suffer due to a currency mismatch between our assets and liabilities. We have a monitoring mechanism for foreign exchange rate comparison of different foreign currencies and foreign exchange rate comparison of the same foreign currencies so as to provide our management with effective analysis.

A significant majority of our assets and liabilities are denominated in Renminbi, and the majority of our business transactions are denominated in Renminbi. The main foreign exchange rate risk we face is from the issuance of the 2021 Notes which are U.S. dollar denominated. We closely monitor the fluctuation of Renminbi against U.S. dollars and Hong Kong dollars and may also repay foreign currency borrowings in advance.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk resulting from inadequate internal control, human errors, IT infrastructure failure, or external events. Our senior management, including our Chief Operating Officer, oversees our overall management of operational risk. The primary objective of our operational risk management is to effectively identify, assess, monitor, control and mitigate the operational risk.

We have implemented various measures to prevent losses from operational errors and maintain our reputation. We identify various operation-specific risks, formulate and implement internal control policies, and continuously improve our risk control measures. We periodically check the integrity of our business processes and operational procedures through regular and ad hoc internal audits. We constantly develop and upgrade our IT infrastructure and *Hummingbird* to further enhance the automation of our risk management. We have maintained and updated our standard form business contracts for loans, data access authorization, and other operations to standardize our business processes. And we constantly work with various internal departments to improve our operational risk management.

INTERNAL CONTROL

We have established a set of comprehensive internal control policies and rules. The goal of our internal control is to effectively identify, prevent, and reduce our internal and external risks while ensuring that we continue to operate our business efficiently and that our internal control measures are consistent with our business development. Our internal control standardizes and streamlines the management and supervision of our business activities, and formulates a dynamic prevention, control, and supervision system.

Internal Control Principles

Our internal control follows three fundamental principles.

- Full coverage and active participation. Our internal control should cover all departments and positions, and penetrate throughout all of our business and management activities. Any of our corporate decisions and acts should be properly recorded on file. Each employee should have risk mindset and be responsible for his or her share of compliance efforts.

- Prudence and independence. Our internal control team should be independent from our business and other functional teams, and should monitor, inspect, and review relevant internal control matters and provide recommendations in accordance with laws and regulations, industry guidelines, and corporate policies.

- Consistency and development. Internal control measures should be (i) consistent with our business in both form and content as well as the internal and external environment, (ii) timely adjusted to adapt to business development and external environment changes, and (iii) appropriate to balance implementing costs and expected benefits.

Internal Control Mechanism

Our internal control measures primarily include the following mechanisms: compliance assessment, Internet information management, credit quality backtracking, senior management self-review, risk warning, internal control inspection, data reporting management, communication, and compliance accountability.

- Under our compliance assessment mechanism, our internal control team works with our business and project teams to assess new systems, procedures, products, business, suppliers, and other vendors.

- Under our Internet information management mechanism, all of our employees must follow our internal rules governing information dissemination via Internet and react to emergency.

- Under our credit quality backtracking mechanism, we have multi-layered backtracking procedures to address monthly risky issues and various specific categories of incidents.

- Under our senior management self-review mechanism, our senior management members perform self-review on their own business process to ensure proper self-awareness from the internal control perspective.

- Under our risk warning mechanism, all employees are encouraged to report potential risk exposure to the senior management.

- Under our internal control inspection mechanism, our internal control team conducts regular and special inspections with respect to our business operations.

- Under our data reporting mechanism, all of our departments or teams are required to make timely, accurate, and full reporting with respect to their businesses.

- Under our communication mechanism, any information to be communicated internally should be true, accurate and prompt.

- Under our compliance accountability mechanism, we formulate a comprehensive set of compliance rules to hold relevant individuals responsible.

In 2018, we further adopted the following enhanced internal control measures.

- We have established an anti-bribery and anti-corruption office led by our Chief Executive Officer and Chief Operating Officer and supported by a supervisory department and a secretariat established in our head office. Members of our Internal Control and Compliance Department and our Finance Department are members of the supervisory department. The supervisory department and secretariat will closely monitor and report to our Chief Executive Officer or Chief Operating Officer any on-going or potential corruption or other misconduct.

- We have adopted a set of internal policies and guidelines, including an anti-bribery management policy, internal control policy, employee handbook and guidelines on public relations and hospitality and cost management and controls on cash payments, which have been disseminated to all our employees through our email and office information distribution system. The conduct prohibited by our internal anti-bribery and anti-corruption policies, includes, among others, (i) accepting or paying bribes or kick-backs, (ii) illegally using, embezzling or misappropriating our assets, and (iii) forging or altering our accounting records.

- We have conducted a series of, and will continue to organize regular, mandatory training seminars for our directors, senior management and employees. Our Company has launched an implementation program designed to ensure that all employees receive training on our Company's anti-corruption policies since March 2018. The objective of the training is to enhance directors', senior managers' and employees' knowledge and awareness of the relevant rules and regulations, as well as their own personal and professional conduct. Moreover, our policies provide for (i) remedial measures for corruption or bribery incidents and (ii) relevant financial and administrative penalties for those employees who engage in corruption or bribery.

- We have established an anti-corruption e-mail and a hotline for employees to anonymously report misconduct for our further investigation.

- The Board will carry out periodical reviews of the implementation of these enhanced internal control measures. Our management is responsible for conducting a fraud and bribery risk assessment on an annual basis and our Audit Committee reviews and approves our annual risk assessment results and policies.

- Since 2013, we have been monitoring and reviewing any payment or invoice exceeding RMB1,000 on a regular basis in accordance with guidelines on public relations and hospitality and cost management and controls on cash payments. We have confirmed to the Initial Purchasers that no payment was made to any current or retired government officials or their respective affiliates during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020. During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we were not aware of any corruption allegations involving, or any other material misconduct committed by our employees.

Directors

The Directors are entrusted with the responsibility for the overall management of the Group. The particulars of the Directors are listed below:

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities
Mr. Liu Sai Wang Stephen (廖世宏)[(1)] . . .	52	Executive Director, Chief Executive Officer	March 2006	September 7, 2007	Overall strategic planning and business direction of the Group and management of the Company, member of the Remuneration Committee
Mr. Liu Sai Keung Thomas (廖世強)[(1)] . . .	47	Executive Director, Chief Operating Officer	November 2011	November 29, 2017	Overseeing the day-to-day operations of the Company
Mr. Ma Ting Hung (馬廷雄)	57	Non-executive Director, Chairman	March 2006	September 7, 2007	Overall strategic planning and business direction of the Group and management of the Company, Chairman of the Nomination Committee
Ms. Shen Jing (沈晶).	34	Non-executive Director	October 2019	October 9, 2019	Provide professional opinion and judgment to the Board
Mr. Yip Ka Kay (葉家祺)	56	Non-executive Director	March 2012	March 30, 2012	Provide professional opinion and judgment to the Board, member of the Audit Committee
Mr. Chen Penghui	48	Independent non-executive Director	March 2018	June 7, 2018	Provide professional opinion and judgment to the Board Chairman of the Remuneration Committee, member of the Audit Committee and member of the Nomination Committee
Mr. Fang Yuan (方遠).	42	Independent non-executive Director	August 2020	August 19, 2020	Provide professional opinion and judgment to the Board
Mr. Wu Chak Man (胡澤民)	48	Independent non-executive Director	March 2018	June 7, 2018	Provide professional opinion and judgment to the Board Chairman of the Audit Committee, member of the Nomination Committee, member of the Remuneration Committee

Notes:

(1) Mr. Liu and Mr. Liu Sai Keung Thomas are brothers.

The business and working experience of the Directors is summarized below:

Executive Directors

Mr. Liu Sai Wang Stephen (廖世宏), aged 52, joined as a director of the Company in September 2007. Mr. Liu is an executive director and the Chief Executive Officer of the Company and a member of the remuneration committee of the Company. Mr. Liu is also a director of several subsidiaries of the Company. Mr. Liu is responsible for the overall strategic planning, business oversight of the Group, as well as management of the Company. Prior to joining the Company, Mr. Liu held various positions at the Hong Kong Branch of The Sanwa Bank Ltd. between July 1989 and September 2000, including as Senior Manager of its China Department.

Mr. Liu received his Bachelor of Science degree from The Chinese University of Hong Kong in December 1989 and a master's degree in business administration from The University of Michigan in April 2003.

Mr. Liu is the brother of Mr. Liu Sai Keung Thomas, an executive director and the Chief Operating Officer of the Company.

Mr. Liu is a director of each of Magic Mount Limited and Perfect Castle Development Limited, substantial shareholders (within the meaning of Part XV of the SFO) of the Company.

Mr. Liu Sai Keung Thomas (廖世強) ("**Mr. Thomas Liu**"), aged 47, joined as a director of the Company in November 2017. Mr. Thomas Liu is an executive director and the Chief Operating Officer of the Company. Mr. Thomas Liu is also a supervisor of several subsidiaries of the Company. He is responsible for overseeing the day-to-day operations of the Company. Prior to joining the Company, Mr. Thomas Liu worked as Managing Director in the Strategic Investment division at GroupM, a division of J. Walker Thompson-Bridge Advertising Co., Ltd., from August 2007 to May 2009. He was also Vice President in the Business Development department at Star (China) Company Limited, a then subsidiary of 21st Century Fox (Asia) Ltd. (formerly known as the News Corporation) from February 2006 to July 2007. From April 2003 to February 2006, Mr. Thomas Liu held various positions in the group of TOM Group Limited (SEHK Stock Code: 2383), a company listed on Main Board of the SEHK, including as director of the Corporate Development department at TOM Online Inc. Mr. Thomas Liu was an associate in Lehman Brothers Inc. in New York from 2001 to 2002.

Mr. Thomas Liu is an independent non-executive director of NetDragon Websoft Holdings Limited. (SEHK Stock Code: 777), a company listed on the Main Board of the SEHK.

Mr. Thomas Liu obtained his bachelor's degree in business administration in May 1995 and a master's degree in finance (evening program) in December 1999, both from The Chinese University of Hong Kong. He also received a master's degree in business administration, majoring in Finance and Strategy, from The Anderson School at University of California, Los Angeles, in June 2001.

Mr. Thomas Liu is the brother of Mr. Liu, an executive director and the Chief Executive Officer of the Company.

Non-Executive Directors

Mr. Ma Ting Hung (馬廷雄), aged 57, joined as a director of the Company in September 2007. He is a non-executive director and the Chairman of the Company and the chairman of the nomination committee of the Company. He is also a director of several subsidiaries of the Company. Mr. Ma is responsible for the overall strategic planning and business direction of the Group and management of the Company. Mr. Ma has over 27 years of experience in banking and finance, and the natural resources industry. Mr. Ma served as an executive director of CITIC Resources Holdings Limited (SEHK Stock Code: 1205), a company listed on the Main Board of the SEHK, from August 2000 to August 2007 and as a non-executive director of CITIC Resources Holdings Limited from August 2007 to June 2009 and from September 2015 to June 2018, as its Chief Executive Officer from August 2000 to September 2005, its Vice Chairman from August 2000 to August 2007 and a member of its remuneration committee from March 2006 to August 2007. He was also an independent non-executive director of Universe Entertainment and Culture Group Company Limited (formerly known as Universe International Holdings Limited) (SEHK Stock Code: 1046), a company listed on the Main Board of the SEHK, from September 2004 to November 2008.

Mr. Ma received his Bachelor of Arts degree majoring in Economics from the University of Southern California in December 1985. Mr. Ma is a member of China Overseas Friendship Association and a member of The Hong Kong Independent Non-Executive Directors Association.

Mr. Ma is a director of, each of Skyworld-Best Limited, Wealthy Surplus Limited and Glory Global International Limited, substantial shareholders (within the meaning of Part XV of the SFO) of the Company.

Ms. Shen Jing (沈晶), aged 34, joined as a non-executive director of the Company in October 2019. She is the Operating Director, China Operating Head of TPG Capital Asia since February 2018. Prior to joining TPG Capital Asia, Ms. Shen worked at Alvarez & Marsal Asia Ltd, as a senior director.

Ms. Shen holds a Bachelor Degree of Business Administration from The Chinese University of Hong Kong. She also holds the Financial Risk Manager designation and the Chartered Financial Analyst designation.

Mr. Yip Ka Kay (葉家祺), aged 56, joined as a director of the Company in March 2012. He is a non-executive director of the Company and a member of the audit committee of the Company.

Mr. Yip is the managing director and responsible officer of GRE Investment Advisors Limited, a Hong Kong Securities and Futures Commission licensed advisor to NM Strategic Management, LLC. He is also a managing director of General Oriental Investments (HK) Limited, a wholly owned subsidiary of General Oriental Investments S.A., the investment manager of the Cavenham Group of Funds. Mr. Yip is also an independent non-executive director and a member of the audit committee, nomination committee and remuneration committee of Shun Tak Holdings Limited (SEHK Stock Code: 242), a company listed on the Main Board of the SEHK. Mr. Yip has extensive experience in private equity and alternative and portfolio investment. He was previously the managing director and responsible officer of Bosera Asset Management (International) Co., Limited in Hong Kong. Prior to that, he was a founding and senior partner of General Enterprise Management Services (HK) Limited, a private equity management company. He was also previously a vice president of JP Morgan International Capital Corporation.

Mr. Yip is currently a member of the Investment Advisory Committee of EQT Partners, a leading private equity group in Europe, which works with portfolio companies to achieve sustainable growth, operational excellence and market leadership.

Mr. Yip holds an A.B. Degree in Economics (magna cum laude) from Harvard University. He sits as a non-scientific member of the Institutional Review Board of the University of Hong Kong/Hospital Authority Hong Kong West Cluster and is also a member of the board of trustees of Milton Academy, Massachusetts, USA. He was chairman emeritus of the Hong Kong Venture Capital and Private Equity Association. Mr. Yip had also served on the Financial Services Advisory Committee of the Trade Development Council of the Hong Kong Special Administrative Region of the People's Republic of China.

Independent Non-Executive Directors

Mr. Chen Penghui, aged 48, joined as an independent non-executive director of the Company in June 2018. He is the chairman of the remuneration committee of the Company and a member of the audit committee and the nomination committee of the Company. Mr. Chen is a partner at Biotrack Capital (博遠醫療基金), an investment fund, which he co-founded in June 2017. Prior to that, Mr. Chen was a partner at Sequoia Capital China (紅杉資本中國基金) from May 2014 to May 2017 and a managing director at China Everbright Holdings Co., Ltd. (中國光大集團股份公司) from December 2011 to May 2014. He is a director of BGI Genomics Co., Ltd. (深圳華大基因股份有限公司) (Stock Code: 300676), a company listed on the Shenzhen Stock Exchange. Mr. Chen was also the President of ShangPharma Co., Ltd. (previously listed on the New York Stock Exchange under stock code: SHP) from January 2011 to December 2011, the chief operating officer of ShangPharma from 2008 to 2011 and the chief financial officer of ShangPharma from September 2010 to January 2011, and a director of Jiangsu Yuyue Medical Equipment & Supply Co., Ltd. (江蘇魚躍醫療設備股份有限公司) (Stock Code: 002223), a company listed on the Shenzhen Stock Exchange, from April 2015 to November 2017.

Mr. Chen received his bachelor's degree in chemistry from Nanjing University in July 1993 and master's degree in medicinal chemistry from Tulane University in May 1998. Mr. Chen was awarded a master's degree in business administration from Kellogg School of Management, Northwestern University in June 2003.

Mr. Fang Yuan (方遠), aged 42, is the founding managing partner of Starquest Capital, a China based private equity and fund of funds firm with investment strategy focused on the consumer, healthcare and technology sectors. Prior to founding Starquest Capital in 2018, Mr. Fang served as the Head of LGT Capital Partners in China for 12 years. Before joining LGT Capital Partners in early 2007, Mr. Fang worked for AXA Private Equity Group in Singapore focusing on fund of funds and direct investment in the Pan-Asia region. Mr. Fang has a total of 20 years' experience in the finance industry.

Mr. Fang holds a Bachelor degree in Accounting from Shanghai Jiao Tong University, a MBA from INSEAD Business School and an EMBA from People's Bank of China School of Finance of Tsinghua University. Mr. Fang also holds the Chinese certified public accountant qualification.

Mr. Wu Chak Man (胡澤民), aged 48, joined as an independent non-executive director of the Company in June 2018. He is the chairman of the audit committee of the Company and a member of the nomination committee and the remuneration committee of the Company. Mr. Wu is the founding partner of MFund Venture Capital and the Chief Executive Officer of Shanghai Moliang Venture Investment Center (LLP) (上海魔量創業投資中心(有限合夥). He is also an independent non-executive director of China Parenting Network Holdings Limited (SEHK Stock Code: 1736), a company which is listed on the Main Board of the Stock Exchange. Mr. Wu resigned as an independent non-executive director of Tian Ge Interactive Holdings Limited (SEHK Stock Code: 1980), a company listed on the Main Board of the SEHK, on June 13, 2018. Mr. Wu was also an executive director and the chief executive officer of 91 Wireless Websoft Limited (now known as Baidu 91 Wireless) from 2011 to 2014. Between 2004 to 2013, Mr. Wu held various senior management positions in the group of NetDragon Websoft Holdings Limited (SEHK Stock Code: 777), a company listed on the Main Board of the SEHK, including chief financial officer and vice-president of NetDragon Websoft Holdings Limited.

Mr. Wu received his bachelor's degree in economics from the University of California, Berkeley and master's degree in business administration from Duke University.

SENIOR MANAGEMENT

The following table provides information about members of our senior management:

Name	Age	Position	Date of joining our Group	Roles and responsibilities
Mr. Liu Sai Wang Stephen (廖世宏)	52	Executive Director, Chief Executive Officer	March 2006	Overall strategic planning and business direction of the Group and management of the Company
Mr. Liu Sai Keung Thomas (廖世強)	47	Executive Director, Chief Operating Officer	November 2011	Overseeing the day-to-day operations of the Company
Mr. Jin Jiafang (金家芳)	43	Chief Technology Officer	March 2013	Strategic planning and development of the Company's IT capabilities
Mr. Gong Yisheng (龔翊昇)	46	Chief Risk Officer	January 2019	Development of risk management strategy of the Company and overseeing risk management
Mr. Zhou Zheng (周正)	35	Chief Financial Officer	November 2017	Corporate finance, investor relations, investments and acquisitions, strategy and legal matters
Ms. Xue Lan (薛嵐)	57	General Manager	October 2001	Overseeing Strategic development of Company's branding and handling government matters
Mr. Yu Rui (于瑞)	44	Chief Marketing Officer	June 2007	Development of Company's partnership and funding channels

Mr. Liu Sai Wang Stephen (廖世宏), aged 52, is the Chief Executive Officer, an executive Director and a co-founder of the Company. For further details, see "— Executive Directors".

Mr. Liu Sai Keung Thomas (廖世強), aged 47, is the Chief Operating Officer and an executive Director of the Company. For further details, see "— Executive Directors".

Mr. Jin Jiafang (金家芳), aged 43, joined in March 2013 and is the Chief Technology Officer of the Group. Prior to joining the Group, Mr. Jin served as a Vice President of Information Management at International Far Eastern Leasing Co., Ltd. (遠東國際租賃有限公司) from May 2007 to January 2013. Mr. Jin received his master's degree in business administration from Tongji University in November 2007.

Mr. Jin also received a bachelor's degree in economics from Tsinghua University in July 2007, through long distance learning.

Mr. Gong Yisheng (龔翊昇), aged 46, joined in January 2019 and is the Chief Risk Officer of the Group. Prior to joining the Group, Mr. Gong had extensive experience in consumer lending risk management having spent 10 years at Capital One in the United States of America before returning to China to spearhead risk management at two independent consumer finance lenders during the past 3 years.

Mr. Gong received his bachelor's degree from Guanghua School of Management, Peking University, and a master's degree in economics from Temple University in the United States of America.

Mr. Zhou Zheng (周正), aged 35, joined in November 2017 and is the Chief Financial Officer of the Group. Prior to joining the Company, Mr. Zhou served as a vice president at Credit Suisse (Hong Kong) Limited in the Investment Banking and Capital Markets Division.

Mr. Zhou received his bachelor's degree in business administration in finance from the Hong Kong University of Science and Technology.

Ms. Xue Lan (薛嵐), aged 57, joined in 2001, and is the General Manager of the Group. She is also the General Manager of Vision Credit Financial Technology Co., Ltd. (上海維信薈智金融科技有限公司), Vision Credit Financing Guarantee Co., Ltd. (維仕融資擔保有限公司), and Chengdu Weishi Microfinance Co., Ltd. (成都維仕小額貸款有限公司). Ms. Xue is currently a member of the 14th Chinese People's Political Consultative Conference and a member of the 14th Standing Committee of the China Federation of Industry and Commerce in Hongkou District, Shanghai, China. She has been awarded the title of Shanghai New Long March pacesetter and the title of Shanghai women pacesetter from 2017 to 2018.

Mr. Yu Rui (于瑞), aged 44, joined in June 2007 and is the Chief Marketing Officer of the Group. Prior to joining the Group, Mr. Yu successively worked in NEC (China) Co., Ltd. and Beijing Jiexun Ruizhi Technology Development Co., Ltd.

Mr. Yu received a master's degree from the University of Nottingham, UK, and an EMBA from the China Europe International Business School.

COMPANY SECRETARY

Mr. Cha Johnathan Jen Wah is the company secretary of the Company. Mr. Cha has over 28 years of experience in mergers and acquisitions, corporate finance, regulatory and general commercial work.

Mr. Cha is a solicitor admitted in Hong Kong and England and Wales.

CORPORATE GOVERNANCE

Audit Committee

We have established an audit committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. The audit committee comprises two independent non-executive Directors, namely Mr. Wu Chak Man and Mr. Chen Penghui and one non-executive Director, namely Mr. Yip Ka Kay. Mr. Wu, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

Remuneration Committee

We have established a remuneration committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. The remuneration committee comprises two independent non-executive Directors, namely Mr. Chen Penghui and Mr. Wu Chak Man and one executive Director, namely Mr. Liu Sai Wang Stephen and. Mr. Chen is the chairman of the committee.

Nomination Committee

We have established a nomination committee in compliance with the Code on Corporate Governance set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding the appointment of Directors and Board succession. The nomination committee comprises one non-executive Director, namely Mr. Ma Ting Hung and two independent non-executive Directors, namely Mr. Chen Penghui and Mr. Wu Chak Man. Mr. Ma is the chairman of the committee.

DIRECTORS' REMUNERATION

The aggregate amount of fees, salaries, allowances, retirement benefits scheme contributions and share-based compensation we paid contributed to our Directors in respect of the financial years ended 2017, 2018 and 2019 were RMB5.2 million, RMB195.6 million and RMB211.8 million.

During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, no remuneration was paid to our Directors as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, our Directors or past Directors during the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020 for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020.

PRE-IPO SHARE OPTION SCHEMES

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

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

As of September 30, 2020, we had 82,434,818 share options outstanding under the Pre-IPO Share Option Schemes.

No share options have been granted under the Pre-IPO Share Option Schemes after the listing of our shares on the SEHK on June 21, 2018.

POST-IPO SHARE OPTION SCHEME

Our post-IPO share Option Scheme was adopted by our shareholders on May 10, 2018 (the "**Post-IPO Share Option Scheme**"). The Post-IPO Share Option Scheme is subject to the provisions of the Listing Rules.

The purpose of the Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in our Company and to encourage selected participants to work towards enhancing the value of our Company and our shares for the benefit of our Company and our shareholders as a whole. The Post-IPO Share Option Scheme provides our Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants.

As of September 30, 2020, no share options have been granted or agreed to be granted under the Post-IPO Share Option Scheme.

Share Award Scheme

On January 11, 2019, we adopted a share award scheme (the "**Share Award Scheme**") in which all of our employees and directors are entitled to participate, as determined by our board of directors. The purpose of the Share Award Scheme is to align the interests of the selected participants with ours and to encourage and retain the selected participants to make contributions to our Company's long-term growth and profits.

Pursuant to the Share Award Scheme rules, our shares will be acquired by an independent trustee from the market at our cost and held on trust for the selected participants until the shares vest. Vested shares will be transferred at no cost to the selected participants. The maximum number of shares that may be awarded under the Share Award Scheme throughout its duration is 24,974,369 shares. Unless terminated by our board of directors, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the adoption date, and thereafter for so long as there are any non-vested shares awarded prior to the expiration of the Share Award Scheme.

During the nine months ended September 30, 2020, a total of 850,000 shares were awarded to eligible persons pursuant to the Share Award Scheme. As of September 30, 2020, a total of 7,380,360 shares have been awarded to eligible persons pursuant to the Share Award Scheme, and out of which 1,800,000 shares were awarded to connected persons.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated.

As a listed company on the SEHK, we are subject to the requirements of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time) (the "**Listing Rules**"), which require that certain "connected transactions" with "connected persons" be approved by a company's independent shareholders. The related party transactions disclosed hereunder that constitute connected transactions within the meaning of the Listing Rules would not have been subject to reporting, announcement and/or independent shareholders' approval requirements had our Company been listed on the SEHK at the relevant times, as such transactions would have been exempted from compliance under Chapter 14A of the Listing Rules.

Loans from Controlling Shareholders

During the years ended 2017, 2018 and 2019 and the nine months ended September 30, 2020, we received loans from our Controlling Shareholders to finance our general working capital and business needs. As of December 31, 2017, 2018 and 2019 and September 30, 2020, the balance of principal amount of loans from our Controlling Shareholders was RMB62.7 million, nil, nil and nil, respectively. All loans from our Controlling Shareholders were unsecured, with an interest rate of 10% per annum. All outstanding loans from our Controlling Shareholders were repaid prior to the completion of our initial public offering.

Guarantee to CEO and Executive Director

During the years ended 2017 and 2018, our Company guaranteed a loan to 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.

Related Party Loans

During the years ended 2017, 2018, 2019 and the nine months ended September 30, 2020, we received loans from other related parties to finance our general working capital and business needs. As of December 31, 2017, 2018, 2019 and September 30, 2020, the balance of principal amount of our borrowings from our related parties (including our Controlling Shareholders) were RMB453.0 million, RMB90.2 million, nil and nil, respectively. All loans from our related parties were unsecured with an interest rate of 10% per annum.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of our shares as of the date of this offering memorandum by those persons who beneficially own more than 5% of our issued shares and underlying shares, as recorded in the register maintained by us pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/Nature of interest	Number of Shares		Number of underlying Shares pursuant to share options/share awards *	Percentage of total issued Shares [(1)]
		Long Position	Short Position		
Mr. Ma	Personal interest	8,450,000			38.37%
	Interest in controlled corporations [(2)]	176,922,097		4,000,000	
Skyworld-Best Limited	Beneficial interest [(2)]	84,719,154		4,000,000	17.97%
Wealthy Surplus Limited	Beneficial interest [(2)]	46,607,010			9.44%
Glory Global International Limited	Beneficial interest [(2)]	45,595,933			9.24%
Mr. Liu	Personal interest	300,000		900,000 *	21.91%
	Interest in controlled corporations [(3)]	59,942,173		46,978,816	
Kwok Lim Ying	Interest in a controlled corporation [(4)]	27,093,858			5.49%
Perfect Castle Development Limited	Beneficial interest [(3)]	27,523,810		46,978,816	15.09%
Magic Mount Limited	Beneficial interest [(3)] [(4)]	27,093,858			5.49%
Kwok Peter Viem	Interest in a controlled corporation [(5)]	60,740,770			12.31%
	Interest in a controlled corporation [(5)]		*10,000,000*		*2.03%*
Kwok Chang Shiu Feng	Interest in a controlled corporation [(5)]	60,740,770			12.31%
	Interest in a controlled corporation [(5)]		*10,000,000*		*2.03%*
High Loyal Management Limited	Beneficial interest [(5)]	60,740,770			12.31%
	Beneficial interest [(5)]		*10,000,000*		*2.03%*
EastWest Trust Company Limited	Interest in a controlled corporation [(6)]	41,339,885			8.38%
Cavamont Holdings Limited	Interest in a controlled corporation [(7)]	41,339,885			8.38%

Name of Shareholder	Capacity/Nature of interest	Number of Shares		Number of underlying Shares pursuant to share options/share awards *	Percentage of total issued Shares (1)
		Long Position	Short Position		
Cavamont Investments Limited	Interest in a controlled corporation (8)	41,339,885			8.38%
Cavenham Private Equity and Directs	Interest in controlled corporations (9)	41,339,885			8.38%
CPED Asia (No.1) Limited	Beneficial interest (9)	37,324,257			7.56%
David Bonderman	Interest in a controlled corporation (10)	31,011,598			6.28%
James George Coulter	Interest in a controlled corporation (10)	31,011,598			6.28%
TPG Group Holdings (SBS) Advisors, Inc.	Interest in a controlled corporation (11)	31,011,598			6.28%
TPG Group Holdings (SBS) Advisors, LLC	Interest in a controlled corporation (12)	31,011,598			6.28%
TPG Group Holdings (SBS), L.P.	Interest in a controlled corporation (13)	31,011,598			6.28%
TPG Holding III-A, Inc.	Interest in a controlled corporation (14)	31,011,598			6.28%
TPG Holdings III-A, L.P.	Interest in a controlled corporation (15)	31,011,598			6.28%
TPG Holdings III, LP	Interest in a controlled corporation (16)	31,011,598			6.28%
TPG Growth III SF AIV GenPar Advisors, Inc.	Interest in a controlled corporation (17)	31,011,598			6.28%
TPG Growth III SF AIV GenPar, LP	Interest in a controlled corporation (18)	31,011,598			6.28%
TPG Growth III SF Finance, Limited Partnership	Interest in a controlled corporation (19)	31,011,598			6.28%
TPG Growth III SF Pte. Ltd	Beneficial interest	31,011,598			6.28%

Notes:

(1) The calculation is based on (i) the aggregate number of shares and, if any, underlying shares pursuant to share options and share awards, and (ii) the total number of 493,577,389 shares in issue as of the date of this offering memorandum.

(2) Mr. Ma controls 100% of each of Skyworld-Best Limited, Wealthy Surplus Limited and Glory Global International Limited.

(3) Mr. Liu controls 100% of each of Perfect Castle Development Limited and Union Fair International Limited, and 50% of Magic Mount Limited. Perfect Castle Development Limited has a beneficial interest in 27,523,810 Shares, and amongst which, 10,000,000 shares lent under a securities lending agreement. Union Fair International Limited has a beneficial interest in 5,324,505 Shares.

(4) Kwok Lim Ying controls 50% of Magic Mount Limited.

(5) Kwok Peter Viem and Kwok Chang Shiu Feng each controls 50% of High Loyal Management Limited. High Loyal Management Limited borrowed 10,000,000 shares (with an obligation to return the shares) under a securities lending agreement.

(6) EastWest Trust Company Limited controls 64.17% of Cavamont Holdings Limited.

(7) Cavamont Holdings Limited controls 100% of Cavamont Investments Limited.

(8) Cavamont Investments Limited controls 100% of Cavenham Private Equity and Directs.

(9) Cavenham Private Equity and Directs controls 100% of CPED Asia (No.1) Limited and 50% of CPED (KY) Limited, which has a beneficial interest in 4,015,628 Shares.

(10) David Bonderman and James George Coulter each controls 50% of TPG Group Holdings (SBS) Advisors, Inc.

(11) TPG Group Holdings (SBS) Advisors, Inc. controls 100% of TPG Group Holdings (SBS) Advisors, LLC.

(12) TPG Group Holdings (SBS) Advisors, LLC controls 100% of TPG Group Holdings (SBS), L.P.

(13) TPG Group Holdings (SBS), L.P. controls 100% of TPG Holdings III-A, Inc.

(14) TPG Holdings III-A, Inc. controls 100% of TPG Holdings III-A, L.P.

(15) TPG Holdings III-A, L.P. controls 100% of TPG Holdings III, LP.

(16) TPG Holdings III, LP controls 100% of TPG Growth III SF AIV GenPar Advisors, Inc.

(17) TPG Growth III SF AIV GenPar Advisors, Inc. controls 100% of TPG Growth III SF AIV GenPar, LP.

(18) TPG Growth III SF AIV GenPar, LP controls 100% of TPG Growth III SF Finance, Limited Partnership.

(19) TPG Growth III SF Finance, Limited Partnership controls 100% of TPG Growth III SF Pte. Ltd.

DESCRIPTION OF THE NOTES

For the purposes of this Description of the Notes, the term "**Company**" refers only to VCREDIT Holdings Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. The Notes will initially be guaranteed on the Original Issue Date by Vision Credit Limited and Asia Jumbo Group Limited (each an "**Initial Guarantor**"). Each Initial Guarantor and each future Subsidiary of the Company which guarantees the Notes is referred to as a "**Subsidiary Guarantor**," and each such guarantee is referred to as a "**Subsidiary Guarantee**." Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined below) is referred to as a "**JV Subsidiary Guarantor**."

The Notes are to be issued under an indenture (the "**Indenture**"), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the "**Trustee**"), in a transaction that is not subject to the registration requirements of the Securities Act. The Holders of the Notes will not be not entitled to any registration rights.

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees and JV Subsidiary Guarantees (if any). This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. We urge you to read the Indenture, the Notes, the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) because they, and not this description, define your rights as holders of the Notes. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at 20th Floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the 2021 Notes and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under "*— The Subsidiary Guarantees and the JV Subsidiary Guarantees*" and in "*Risk Factors — Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees*";
- effectively subordinated to all existing and future obligations of the Non-Guarantor Restricted Subsidiaries (defined below); and

- effectively subordinated to all existing and future secured obligations of the Company to the extent of the collateral securing such obligations.

The Notes will mature on December 3, 2022, unless earlier redeemed pursuant to the terms thereof and the Indenture. Except as described under "*Optional Redemption*," "*Repurchase of Notes Upon a Change of Control*," "*Redemption for Taxation Reasons*" and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

The Indenture allows additional Notes to be issued from time to time (the "**Additional Notes**"), subject to certain limitations described under "*— Further Issues*." Unless the context requires otherwise, references to the "**Notes**" for all purposes of the Indenture and this "*Description of the Notes*" include any Additional Notes that are actually issued. The Notes will bear interest at 11.00% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on June 3 and December 3 of each year (each an "**Interest Payment Date**"), commencing June 3, 2021.

Interest on the Notes will be paid to the Holders of record at the close of business on May 20 or November 19 immediately preceding an Interest Payment Date (each, a "**Record Date**"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment, then payment of principal, premium or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Notwithstanding the foregoing, so long as the Notes are held in global form, each payment in respect of the Global Note will be made to the person shown as the Holder in the register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except December 25 and January 1. The Notes will be issued only in fully registered form, without coupons, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of the Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made by wire transfer in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be an office of the Paying Agent, currently located at c/o Citibank, N.A., Dublin Branch, Ground Floor, 1 North Wall Quay, Dublin 1, Ireland), and the Notes may be presented for registration of transfer or exchange at such office or agency; **provided that**, if the Notes are in certificated form and the Company acts as its own paying agent, at the option of the Company, payment of interest may be made by check mailed at the expense of the Company to the address of the Holders as such address appears in the Note register maintained by the Note Registrar. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees and the JV Subsidiary Guarantees

The Initial Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Restricted Subsidiaries other than (i) those Restricted Subsidiaries organized under the laws of the PRC (the "**PRC Non-Guarantor Subsidiaries**") and (ii) VCREDIT Ventures Limited, VCREDIT Investment Limited, Multi Fortune Asia Corporation, and Double Kingdom International Limited (together with the PRC Non-Guarantor Subsidiaries, the "**Initial Non-Guarantor Restricted Subsidiaries**").

All of the Initial Guarantors are holding companies and do not have significant operations. The Initial Guarantors will be Vision Credit Limited and Asia Jumbo Group Limited.

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC), promptly upon becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which it will Guarantee the payment of the Notes, either as a Subsidiary Guarantor or a JV Subsidiary Guarantor. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary (and its Restricted Subsidiaries) organized outside the PRC (an "**Offshore Restricted Subsidiary**") not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary (an "**Offshore Non-Guarantor Subsidiary**"), **provided that**, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Initial Non-Guarantor Restricted Subsidiaries and Offshore Non-Guarantor Subsidiaries do not, in the aggregate, account for more than 10% of the Total Assets of the Company.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantor is referred to as a "**Future Subsidiary Guarantor**" and upon execution of the applicable supplemental indenture to the Indenture will be a "**Subsidiary Guarantor**."

None of the Initial Non-Guarantor Restricted Subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. Moreover, no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Non-Guarantor Restricted Subsidiaries (as defined below) may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Restricted Subsidiary, such Non-Guarantor Restricted Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

In the case of a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing Capital Stock or the issuance of new Capital Stock, no less than 20% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase Capital Stock of an entity and designate such entity as a Restricted Subsidiary, the Company may, concurrently with the consummation of such sale or purchase, provide a JV

Subsidiary Guarantee (as defined below) instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee (as defined below), no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;

- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than (in the case of a sale or issuance) or no more than (in the case of a purchase) the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company; **provided that**, no such appraisal is required if the sale, issuance or purchase of Capital Stock is made within 180 days after land use rights are acquired by such JV Restricted Subsidiary or any Restricted Subsidiary of such JV Subsidiary Guarantor;

- all capital contributions (by way of transfer of cash or other property or any payment for property or services for the use of others or otherwise) to be made into a JV Subsidiary Guarantor from the date of the sale of existing Capital Stock or issuance of new Capital Stock or purchase of Capital Stock as referred to above, shall be made directly or by contribution of assets or services having an equivalent Fair Market Value by (i) the Company and its Restricted Subsidiaries and (ii) such Independent Third Party in proportion to their respective direct or indirect ownership percentages of the Capital Stock of such JV Subsidiary Guarantor or on a basis more favorable to the Company;

- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:

  (i) (A) a duly executed Guarantee of such JV Subsidiary Guarantor (the "**JV Subsidiary Guarantee**") and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC (other than the Exempted Subsidiaries), and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;

  (ii) an Officers' Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and

(iii) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantees are valid, binding and enforceable against the JV Subsidiary Guarantors providing such JV Subsidiary Guarantees (subject to customary qualifications and assumptions).

As of September 30, 2020,

- the Company and its consolidated subsidiaries (including the Non-Guarantor Restricted Subsidiaries) had total consolidated indebtedness of approximately RMB4,168.0 million (US$613.9 million), of which nil was secured; and

- all of the Restricted Subsidiaries that are neither Subsidiary Guarantors or JV Subsidiary Guarantors (the "**Non-Guarantor Restricted Subsidiaries**"), in the aggregate, held total indebtedness of approximately RMB546.1 million (US$80.4 million).

In addition, as of September 30, 2020, the Non-Guarantor Restricted Subsidiaries had no capital commitments and contingent liabilities.

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefore;

- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;

- ranks at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); and

- is effectively subordinated to all existing and future obligations of the Company, Non-Guarantor Subsidiaries and the Unrestricted Subsidiaries.

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;

- will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be enforceable only up to the JV Entitlement Amount;

- will be effectively subordinated to the secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;

- will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to the JV Entitlement Amount, and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and

- will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured and unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated Indebtedness pursuant to applicable law).

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any), will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; **provided that**, any JV Subsidiary Guarantee, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholder of such JV Subsidiary Guarantor, in the aggregate, will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and the JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantee, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees or the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be Guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. Each JV Subsidiary Guarantee, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such Subsidiary Guarantor, in the aggregate, is limited to an amount with is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including Guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor's liability on its JV Subsidiary Guarantee, as the case may be, could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "*Risk Factors — Risks Relating to the Subsidiary Guarantees — The Subsidiary Guarantees may be challenged under applicable financial assistance, insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees*."

Release of the Subsidiary Guarantees and the JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;

- upon a defeasance as described under "*— Defeasance — Defeasance and Discharge*";

- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture; or

- upon the sale or merger of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under "*— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,*" "*— Certain Covenants — Limitation on Asset Sales*" and "*— Consolidation, Merger and Sale of Assets*") resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary, (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture, (3) in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee, or (4) in the case of a Subsidiary Guarantor that becomes a Non-Guarantor Subsidiary, in compliance with the terms of the Indenture.

In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell or has sold, whether through the sale of existing Capital Stock or the issuance of new Capital Stock, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with or after the consummation of such sale or issuance of Capital Stock, request the Trustee to release the Subsidiary Guarantee provided by such Subsidiary Guarantor and the Subsidiary Guarantee provided by each of its Restricted Subsidiaries organized under laws outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized under laws outside the PRC will become Non-Guarantor Subsidiaries (such that each Non-Guarantor Subsidiary will no longer Guarantee the Notes) without any requirement to seek the consent or approval of the Holders of the Notes, **provided that**, after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized under laws outside the PRC (other than the Exempted Subsidiaries) that are neither Subsidiary Guarantors nor JV Subsidiary Guarantors (including the Non-Guarantor Subsidiaries) do not account for more than 10% of the Total Assets. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if, as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (x) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (y) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

As of the date of the Indenture, all of the Company's Subsidiaries will be "**Restricted Subsidiaries**." However, under the circumstances described below under "*— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries*," the Company will be permitted to designate certain of its Subsidiaries as "**Unrestricted Subsidiaries**." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company's Unrestricted Subsidiaries will not Guarantee the Notes.

No release of a Subsidiary Guarantor or a JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officers' Certificate stating that all requirements for such release have been complied with and such release is permitted by the terms of the Indenture.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% of the issued Capital Stock of the relevant Subsidiary Guarantor, **provided that** the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee, (b) prohibiting the Company or any of the Restricted Subsidiaries from providing a JV Subsidiary Guarantee, or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;

- such sale has been made to an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;

- all capital contributions (by way of transfer of cash or other property or any payment for property or services for the use of others or otherwise) to be made into a JV Subsidiary Guarantor from the date of the sale of existing Capital Stock or issuance of new Capital Stock as referred to above, shall be made directly or by contribution of assets or services having an equivalent Fair Market Value by (i) the Company and its Restricted Subsidiaries and (ii) such Independent Third Party that purchased or subscribed for Capital Stock in the

JV Subsidiary Guarantor in proportion to their respective direct or indirect ownership percentages of the Capital Stock of such JV Subsidiary Guarantor or on a basis more favorable to the Company;

- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:

  (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC (other than the Exempted Subsidiaries) and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will Guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;

  (ii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and

  (iii) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including, without limitation, the "Limitation on Asset Sales" and "Limitation on Restricted Payments" covenants.

Any Net Cash Proceeds from the sale or issuance of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the "Limitation on Asset Sales" covenant.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees and the JV Subsidiary Guarantees, if any) in all respects (or in all respects except for the issue date, issue price and the date and/or amount of the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a "**Further Issue**") so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; **provided that** the issuance of any such Additional Notes will then be permitted under the first paragraph of the "*Limitation on Indebtedness*" covenant described below and the other provisions of the Indenture.

Optional Redemption

The Company may at its option redeem the Notes, in whole but not in part, at any time, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date. Neither the Trustee nor any of the Agents will be responsible for calculating or verifying the Applicable Premium.

At any time and from time to time, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 106.062% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; **provided that** at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Notes will be selected for redemption as follows:

(1) if the Notes are listed on any recognized securities exchange or held through a clearing system, in compliance with the requirements of the principal recognized securities exchange on which the Notes are listed or the requirement of the clearing system; or

(2) if the Notes are not listed on any recognized securities exchange, on a *pro rata* basis, by lot or by such other method as the Trustee in its sole discretion deems fair and appropriate, unless otherwise required by applicable law.

A Note of US$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Any redemption of Notes and notice of redemption may, at the Company's discretion, be subject to the satisfaction (or waiver by the Company in its sole discretion) of one or more conditions precedent (including, in the case of a redemption related to an Equity Offering, the consummation of such Equity Offering and in the case of a Change of Control, the occurrence of such Change of Control).

If the optional redemption date is on or after a Record Date and on or before the related Interest Payment Date, the accrued and unpaid interest will be paid to the Person in whose name the Note is registered at the close of business on such Record Date, and no additional interest will be payable to Holders whose Notes will be subject to redemption by the Company.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "**Change of Control Offer**") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the Offer to Purchase Payment Date (as defined in clause (2) of the definition of "**Offer to Purchase**").

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's, the Subsidiary Guarantors' and the JV Subsidiary Guarantors (if any) then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "*Risk Factors — Risks Relating to the Notes — The Company may not be able to repurchase the Notes upon a Change of Control Triggering Event*."

The definition of Change of Control includes a phrase relating to the sale of "all or substantially all" the assets of the Company. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Notes to require the Company to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Company to another person or group may be uncertain and will depend upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner within the same time frame and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The Trustee shall not be required to take any steps to monitor or ascertain whether a Change of Control Triggering Event or any event which could lead to the occurrence of a Change of Control Triggering Event has occurred and shall not be liable to any person for any failure to do so.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under "— *Consolidation, Merger and Sale of Assets*") or an applicable Subsidiary Guarantor or JV Subsidiary Guarantor is organized or resident for tax purposes or any political subdivision or taxing authority thereof or therein (each, as applicable, a "**Relevant Taxing Jurisdiction**") or any jurisdiction through which payment is made or any political subdivision or taxing authority thereof or therein (together with the Relevant Taxing Jurisdictions, the "**Relevant Jurisdictions**"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(1) for or on account of:

(a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(i) the existence of any present or former connection between the Holder or beneficial owner of such Note, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period; or

(iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor or any JV Subsidiary Guarantor, addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;

(b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(c) any tax, duty, assessment or other governmental charge to the extent such tax, duty, assessment or other governmental charge results from the presentation of the Note (where presentation is required) for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment elsewhere;

(d) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**"), any current or future Treasury regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, any law, regulation or other official guidance enacted in any jurisdiction implementing such an intergovernmental agreement or FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA; or

(e) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c) and (d); or

(2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

The Company will (i) make such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the Relevant Jurisdiction imposing such taxes. The Company will furnish to the Holders, within 60 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Company will be obligated to pay Additional Amounts with respect to such payment, the Company will deliver to the Trustee an Officers' Certificate stating the fact that such

Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying Agent to pay such Additional Amounts to the Holders on such payment date.

In addition, the Company will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in any Relevant Jurisdiction in respect of the creation, issue, offering, execution or enforcement of the Notes, or any documentation with respect thereto.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and reasonable notice in advance of such notice to the Holders to the Trustee and the Paying Agent (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "**Tax Redemption Date**") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction; or

(2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), which change or amendment becomes effective or, in the case of an official position, is announced (i) with respect to the Company or any Initial Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor or, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be; **provided that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

(1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person, a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, taking reasonable measures; and

(2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized international standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept and rely on such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders. The Trustee has no duty to investigate or verify such certificate and opinion.

Any Notes that are redeemed will be cancelled.

Open Market Purchases

The Company or any Subsidiary Guarantor may purchase Notes in the open market or by tender or by any other means at any price, so long as such acquisition does not otherwise violate the terms of the Indenture; **provided that** all Notes redeemed or repurchased by the Company or any Subsidiary Guarantor may not be reissued or resold.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness

(1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), **provided that** the Company and any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving *pro forma* effect to the Incurrence of such Indebtedness or Permitted Subsidiary Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Consolidated Debt to Equity Ratio would not be greater than 6.0 to 1.0 with respect to any Incurrence of Indebtedness.

Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

(2) Notwithstanding the foregoing, the Company and any Restricted Subsidiary may Incur, to the extent provided below, any one or more or all of the following ("**Permitted Indebtedness**"):

(a) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee and JV Subsidiary Guarantee;

(b) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (c) below; **provided that** such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;

(c) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; **provided that** (i) any event which results in (x) any Restricted Subsidiary to which such Indebtedness is owed ceasing to be a Restricted Subsidiary or (y) any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (c); (ii) if the Company is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, and if any Subsidiary Guarantor or JV Subsidiary Guarantor is the obligor on such Indebtedness (and the Company is not the obligor), such Indebtedness must be expressly be subordinated in right of payment to the Subsidiary Guarantee or JV Subsidiary Guarantee of such Subsidiary Guarantor or JV Subsidiary Guarantor; and (iii) if the Indebtedness is owed to the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor, such Indebtedness must be evidenced in writing under applicable law;

(d) Indebtedness ("**Permitted Refinancing Indebtedness**") of the Company or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, "**refinance**" and "**refinances**" and "**refinanced**" shall have a correlative meaning), then outstanding Indebtedness Incurred under the proviso in paragraph (1) above or clauses (a), (b) or (j) of paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); **provided that** (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or any Subsidiary Guarantee or any JV Subsidiary Guarantee shall only be permitted under this clause (d) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or any Subsidiary Guarantee or JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or any Subsidiary Guarantee or any JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be; (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced; and (iii) in no event may

Indebtedness of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantee be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is neither a Subsidiary Guarantor nor JV Subsidiary Guarantor;

(e) Indebtedness Incurred by the Company or any Restricted Subsidiaries pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

(f) any *Pari Passu* Guarantee by any Subsidiary Guarantor;

(g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently, except in the case of daylight overdrafts, drawn against insufficient funds in the ordinary course of business; **provided, however, that** this Indebtedness is extinguished within five Business Days;

(h) Indebtedness of the Company or any Restricted Subsidiary in respect of workers' compensation claims and claims arising under similar legislation, or in connection with self-insurance or similar requirements, in each case in the ordinary course of business;

(i) obligations with respect to trade letters of credit, performance, bid and surety bonds, trade guarantees and completion guarantees provided by the Company or any of its Restricted Subsidiaries securing obligations, entered into in the ordinary course of business, to the extent the letters of credit, bonds or guarantees are not drawn upon or, if and to the extent drawn upon is honored in accordance with its terms and, if to be reimbursed, is reimbursed no later than 30 days following receipt of a demand for reimbursement following payment on the letter of credit, bond or guarantee;

(j) Indebtedness of the Company or any Restricted Subsidiary Incurred to finance, through direct lending, the subscription of one or more subordinated tranches of a trust plan in the Company's trust lending operations or similar lending activities of the Company, the Company's online consumer finance borrowers in the ordinary course of business: **provided that** on the date of the Incurrence of any Indebtedness permitted by this clause (k) and after giving effect thereto, the sum of the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (j) and the aggregate principal amount outstanding of all Indebtedness Incurred pursuant to clauses (l) and (p) below (together, in each case, with any refinancings thereof, but excluding any Guarantee Incurred under any such clauses and this clause (j) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 10% of Total Assets;

(k) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; **provided that** the aggregate principal amount of Indebtedness permitted by this clause (k) at any time outstanding does not exceed US$20 million (or the Dollar Equivalent thereof);

(l) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; **provided that** on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (l) and the aggregate principal amount outstanding of all Indebtedness Incurred pursuant to clause (j) above and clause (p) below (together, in each case, with any refinancings thereof, but excluding any Guarantee Incurred under any such clauses and this clause (l) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 10% of Total Assets;

(m) (i) Guarantees by the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor, (ii) Guarantees by any Non-Guarantor Restricted Subsidiary of Indebtedness of another Non-Guarantor Restricted Subsidiary or (iii) Guarantees by the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor of Indebtedness of any Non-Guarantor Restricted Subsidiary, **provided that** in each case of (i), (ii) and (iii), the Guaranteed Indebtedness is permitted to be Incurred by another provision of this covenant;

(n) Guarantees, provided in the ordinary course of business, by the Company or any Restricted Subsidiary of loans to the Company's online consumer finance borrowers funded through the Company's credit-enhanced loan facilitation structure;

(o) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary became a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); **provided that** on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (p) and the aggregate principal amount outstanding of all Indebtedness Incurred pursuant to clauses (j) and (l) above (together, in each case, with any refinancings thereof, but excluding any Guarantee Incurred under any such clauses and this clause (p) to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 10% of Total Assets; or

(p) Indebtedness of the Company or any Restricted Subsidiary not otherwise specifically permitted under clauses (a) through (o); **provided that** the aggregate amount outstanding of Indebtedness permitted by this clause (p) (together with any refinancings thereof) at any time does not exceed US$15 million (or the Dollar Equivalent thereof);

(3) For purposes of determining compliance with this "*Limitation on Indebtedness*" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Permitted Indebtedness, or of Indebtedness described in the proviso in paragraph (1) of this

covenant and one or more types of Permitted Indebtedness, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness and only be required to include the amount of such Indebtedness as one of such types.

(4) For the avoidance of doubt, the accrual of interest, the accretion or amortization of original issue discount, will not be deemed to be an Incurrence of Indebtedness.

(5) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; **provided that** if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currency in which such refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as "**Restricted Payments**"):

(1) declare or pay any dividend or make any distribution on or with respect to the Company's or any of the Restricted Subsidiaries' Capital Stock (other than dividends or distributions payable or paid solely in shares of the Company's Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Subordinated Indebtedness (excluding any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or

(4) make any Investment, other than a Permitted Investment; if, at the time of, and after giving effect to, the proposed Restricted Payment:

(a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;

(b) the Company could not Incur at least US$1.00 of Indebtedness under the proviso in paragraph (1) of the covenant described under "— *Limitation on Indebtedness*"; or

(c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and the Restricted Subsidiaries after the Original Issue Date, shall exceed the sum of (without duplication):

(i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on July 1, 2020, and ending on the last day of the Company's most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner and which may be internal financial statements) are available and have been provided to the Trustee at the time of such Restricted Payment; plus

(ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution to its common equity by, or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion by a Person who is not a Subsidiary of the Company of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company or any Restricted Subsidiary; plus

(iii) the amount by which Indebtedness of the Company or any Restricted Subsidiary is reduced on the Company's balance sheet upon the conversion or exchange subsequent to the Original Issue Date of any Indebtedness of the Company or any Restricted Subsidiary convertible into or exchangeable for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company or such Restricted Subsidiary upon such conversion or exchange); **provided, however, that** the foregoing amount shall not exceed the Net Cash Proceeds received by the Company or such Restricted Subsidiary from the Incurrence of such Indebtedness; plus

(iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Original Issue Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (C) to the extent that an Investment made after the Original Issue Date is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person; plus

(v) US$10 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company, any Subsidiary Guarantor or JV Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

(3) the redemption, repurchase or other acquisition of Capital Stock of the Company, any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company, any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); **provided that** the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor (or options, warrants or other rights to acquire

such Capital Stock); **provided that** the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph; or

(5) repurchases of Capital Stock deemed to occur upon the exercise of stock options to the extent such Capital Stock represents a portion of the exercise price those stock options;

(6) cash payments in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company; **provided that** the amount of payments made pursuant to this clause does not exceed US$1 million (or the Dollar Equivalent thereof) in any fiscal year of the Company;

(7) the declaration and payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a *pro rata* basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;

(8) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing), **provided that** the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US$1.0 million (or the Dollar Equivalent thereof) in any calendar year; or

(9) repurchases of Capital Stock deemed to occur upon the exercise of stock options if such Capital Stock represents a portion of the exercise price thereof;

provided that, in the case of clauses (2), (3) and (4) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein. Each Restricted Payment made pursuant to clause (1) and (7) of this paragraph shall be included in calculating whether the conditions of clause (4)(c) of the first paragraph of this "—*Limitation on Restricted Payments*" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or an appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US$10 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US$10 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "— *Limitation on Restricted Payments*" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

  (a) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;

  (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;

  (c) make loans or advances to the Company or any other Restricted Subsidiary; or

  (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:

  (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, or *Pari Passu* Subsidiary Guarantee of any Subsidiary Guarantor or JV Subsidiary Guarantor, or any extensions, refinancings, renewals or replacements of any of the foregoing agreements; **provided that** the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

  (b) existing under or by reason of applicable law, rule, regulation or order;

  (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; **provided that** the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license; (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture; or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

(e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the "— *Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries*," "— *Limitation on Indebtedness*" and "— *Limitation on Asset Sales*" covenants;

(f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clauses (2)(d), (k), (l), (m) or (p) or the first paragraph of the "— *Limitation on Indebtedness*" covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such type of agreement and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes;

(g) net worth requirements or restrictions on cash or other deposits imposed by customers under contracts with such persons entered into in the ordinary course of business; or

(h) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including in each case options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to the Company or a Wholly Owned Restricted Subsidiary;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;

(3) the issuance or sale of Capital Stock of a Restricted Subsidiary; **provided that** the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— *Limitation on Asset Sales*" covenant; and

(4) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "*Limitation on Restricted Payments*" covenant if made on the date of such issuance or sale and **provided that** the Company complies with the "— *Limitation on Asset Sales*" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary that is neither a Subsidiary Guarantor or JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("**Guaranteed Indebtedness**") of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor, unless (1) such Restricted Subsidiary simultaneously executes and delivers to the Trustee a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee or JV Subsidiary Guarantor of payment of the Notes by such Restricted Subsidiary and (2) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an "**Affiliate Transaction**"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary, as the case may be, than those that would have been obtained in a comparable arm's length transaction by the Company or the relevant Restricted Subsidiary with a Person that is not such a holder or an Affiliate of the Company; and

(2) the Company delivers to the Trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$10.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$15.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or such Restricted Subsidiary, as the case may be, of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;

(2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;

(3) any Restricted Payment of the type described in clauses (1) or (2) of the first paragraph of the covenant described above under "— *Limitation on Restricted Payments*" if permitted by that covenant;

(4) any sale of Capital Stock (other than Disqualified Stock) of the Company;

(5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee benefit, or share option or similar schemes;

(6) any employment, consulting, service or termination agreement, or reasonable and customary indemnification arrangements, entered into by the Company or any of its Restricted Subsidiaries with directors, officers, employees and consultants in the ordinary course of business and the payment of compensation pursuant thereto; and

(7) any provision of Guarantee by any shareholder of the Company for Indebtedness incurred by the Company or any of its Restricted Subsidiaries in the ordinary course of business.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the "*Limitation on Restricted Payments*" covenant; (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering circular, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date; and (iii) any transaction between or among the Company, any Wholly Owned Restricted Subsidiary and any

Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary; **provided that** in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such other shareholder or other partner being an officer or director of such Restricted Subsidiary).

Limitation on Liens

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are (or, in respect of any Lien on any Subsidiary Guarantor's or JV Subsidiary Guarantor's property or assets, any Subsidiary Guarantee or JV Subsidiary Guarantee of such Restricted Subsidiary is) equally and ratably secured by such Lien (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to the obligation or liability secured by such Lien).

Maintenance of the Debt Service Account

The Company shall establish or redesignate a Debt Service Account, denominated in U.S. dollars or other currency, with an account bank located outside of the PRC to be specified in the Indenture.

On the Original Issue Date, the Company will ensure that the Debt Service Account is funded in an amount equal to the Dollar Equivalent amount of one semi-annual interest payment under the Notes in cash or Temporary Cash Investments. At all times following the Original Issue Date and for so long as the Notes remain outstanding, the Company will ensure that the average monthly balance of the Debt Service Account is equal to or greater than the Dollar Equivalent amount of one semi-annual interest payment under the Notes then outstanding (the "**Debt Service Minimum Reserve Amount**"); **provided that**, the Company may withdraw or transfer the funds from the Debt Service Account to make a payment of interest on the Notes when the same becomes due and payable on the relevant interest payment date (the date of such withdrawal or transfer, the "**DSA Withdrawal Date**"), so long as the Company funds the Debt Service Account within five (5) days of such DSA Withdrawal Date in such amounts as are necessary to ensure that the average monthly balance on deposit in the Debt Service Account is at least equal to the then-prevailing Debt Service Minimum Reserve Amount. The Company may only apply the amounts (up to the Debt Service Minimum Reserve Amount) on deposit in the Debt Service Account to fund its payment obligations in respect of the Notes. For the avoidance of doubt, the Company is not required to fund or maintain the average monthly balance of the Debt Service Account in an amount that is greater than the Debt Service Minimum Reserve Amount, and any such excess may be released from the Debt Service Account. The Company may invest any amounts held in the Debt Service Account in Temporary Cash Investments.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; **provided that** the Company or a Subsidiary Guarantor or JV Subsidiary Guarantor may enter into a Sale and Leaseback Transaction if:

(1) the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described under "— *Limitation on Indebtedness*" and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under "— *Limitation on Liens*," in which case, the corresponding Indebtedness will be deemed Incurred and the corresponding Lien will be deemed incurred pursuant to those provisions;

(2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and

(3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, applies the proceeds of such transaction in compliance with, the covenant described below under "— *Limitation on Asset Sales*."

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;

(3) at least 75.0% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets (as defined below); **provided that** in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US$10.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion of fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:

   (a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary, as the case may be, from further liability; and

(b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary, as the case may be, into cash, to the extent of the cash received in that conversion.

(4) Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company or the applicable Restricted Subsidiary, as the case may be, may apply such Net Cash Proceeds to:

(a) permanently repay Senior Indebtedness of the Company or any Restricted Subsidiary (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or

(b) acquire properties and assets (other than current assets) that will be used in the Permitted Businesses, including the Capital Stock of any Person holding such property or assets, which is primarily engaged in a Permitted Business ("**Replacement Assets**");

provided that, pending the application of Net Cash Proceeds in accordance with clauses (a) or (b) of this paragraph, such Net Cash Proceeds may be temporarily invested only in cash or Temporary Cash Investments.

(5) Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clause (4) will constitute "**Excess Proceeds**." Excess Proceeds of less than US$10 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

(a) accumulated Excess Proceeds, multiplied by

(b) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount of the Notes and such other *pari passu* Indebtedness plus accrued and unpaid interest to, but excluding, the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes to be purchased on a *pro rata* basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses, **provided, however, that** the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that (i) is not a Restricted Subsidiary and (ii) is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made by the covenant under the caption "— *Limitation on Restricted Payments*."

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes issued and sold on the Original Issue Date, in any amount, for any purpose other than (1) as specified under "*Use of Proceeds*" in this offering circular (or in the case of Additional Notes, the offering memorandum relating to the sale of such Additional Notes) and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in cash or Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; **provided that** (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) such Restricted Subsidiary does not own any Disqualified Stock of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor or Disqualified or Preferred Stock of a Restricted Subsidiary that is neither a Subsidiary Guarantor or JV Subsidiary Guarantor or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under "— *Limitation on Indebtedness*" or such Lien would violate the covenant described under "— *Limitation on Liens*"; (3) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; (4) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary not concurrently so designated and none of the Company or any Restricted Subsidiary not concurrently so designated Guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; and (5) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under "— *Limitation on Restricted Payments*."

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; **provided that** (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under "— *Limitation on Indebtedness*"; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under "— *Limitation on Liens*"; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary will upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary will become a Subsidiary Guarantor or JV Subsidiary Guarantor.

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or financial condition of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee or JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or any JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the applicable Subsidiary Guarantees or the applicable JV Subsidiary Guarantee, on substantially identical terms; **provided that** this requirement does not apply to distinctions between categories of Indebtedness that exist by reason of any Guarantees securing or in favor of some but not all of such Indebtedness.

Maintenance of Insurance

The Company will, and will cause its Restricted Subsidiaries to, maintain insurance with reputable and financially sound carriers against such risks and in such amounts as is customarily carried by similarly situated businesses in the jurisdictions where the Company or such Restricted Subsidiary, as the case may be, is operating.

Suspension of Certain Covenants

If on any date following the date of the Indenture, the Notes have a rating of Investment Grade from at least two of the three Rating Agencies and no Default has occurred and is continuing (a "**Suspension Event**"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from at least two of the three Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

(1) "*— Certain Covenants — Limitation on Indebtedness*";

(2) "*— Certain Covenants — Limitation on Restricted Payments*";

(3) "*— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*";

(4) "*— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries*";

(5) "*— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries*";

(6) "*— Certain Covenants — Limitation on Business Activities*";

(7) "*— Certain Covenants — Limitation on Sale and Leaseback Transactions*"; and

(8) "*— Certain Covenants — Limitation on Asset Sales*."

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under "*— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries*" or the definition of "Unrestricted Subsidiary."

Such covenants will be reinstituted and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under "*— Certain Covenants — Limitation on Restricted Payments*" will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

(1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited, true and

correct copies of any financial or other report in the English language filed with such exchange; **provided that** if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:

(a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with IFRS and audited by a member firm of an internationally recognized firm of independent accountants;

(b) as soon as they are available, but in any event within 60 calendar days after the end of the second financial quarter of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with IFRS and reviewed by a member firm of an internationally recognized firm of independent accountants; and

(c) as soon as they are available, but in any event within 60 calendar days after the end of each of the first and third financial quarters of the Company, copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Company, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.

(2) In addition, so long as any Note remains outstanding, the Company will provide to the Trustee (a) within 90 days after the close of each fiscal year, an Officers' Certificate stating the Consolidated Debt to Equity Ratio as of the date of the most recently ended fiscal quarter consolidated balance sheet showing in reasonable detail the calculation of the Consolidated Debt to Equity Ratio, including the arithmetic computations of each component of the Consolidated Debt to Equity Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; **provided that** the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification and (b) as soon as possible and in any event within 10 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as "*Events of Default*" in the Indenture:

(1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(2) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(3) default in the performance or breach of the provisions of the covenant described under "*— Consolidation, Merger and Sale of Assets*" or the failure by the Company to make or consummate an Offer to Purchase in the manner described under "*— Repurchase of Notes upon a Change of Control Triggering Event*," "*— Certain Covenants — Maintenance of the Debt Service Account*" or "*— Certain Covenants — Limitation on Asset Sales*";

(4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee as directed by the Holders of 25% or more in aggregate principal amount of the Notes outstanding, or written notice by such Holders themselves;

(5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US$20 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) a default in payment of principal of, or interest or premium on, or any other amounts in respect of (in each case after the expiration of any applicable grace period), such Indebtedness when the same becomes due and payable;

(6) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$20 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(7) an involuntary case or other proceeding is commenced against the Company or any Significant Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Significant Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

(8) the Company or any Significant Restricted Subsidiary, (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b)

consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Significant Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors; and

(9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee, or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or will for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of the Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

(1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and

(2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct by giving written instructions the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to take any action that conflicts with law or the Indenture, that may involve the

Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper in its absolute discretion that is not inconsistent with any such direction received from Holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not receive indemnity and/or security and/or pre-funding satisfactory to it.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

(1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer the Trustee indemnity and/or security and/or pre-funding satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;

(4) the Trustee does not comply with the request within (x) 60 days after receipt of the written request pursuant to clause (2) above or (y) 60 days after the receipt of the offer of indemnity and/or security and/or pre-funding satisfactory to the Trustee pursuant to clause (3) above, whichever occurs later; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee or JV Subsidiary Guarantee, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 90 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and the Restricted Subsidiaries and the Company's and the Restricted Subsidiaries' performance under the Indenture and that the Company and each Restricted Subsidiary have fulfilled all of their respective obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. The Trustee is entitled to assume without enquiry that the Company has performed all its duties in accordance with the Indenture unless otherwise notified. See "— *Provision of Financial Statements and Reports*."

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Company and the Restricted Subsidiaries (as an entirety or substantially an entirety in one transaction or a series of related transactions) unless each of the following conditions is satisfied:

(1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the "**Surviving Person**") shall be a corporation organized and validly existing under the laws of the Cayman Islands, Bermuda, British Virgin Islands, Singapore or Hong Kong and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments and the Indenture and the Notes, as the case may be, shall remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, could Incur at least US$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under "*— Certain Covenants — Limitation on Indebtedness*";

(5) the Company shall deliver to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that (A) such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with and (B) if the Company is the Surviving Person, all the obligations of the Company under the Indenture and the Notes, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture and the Notes, as the case may be, shall remain valid and in full force and effect, and that any registration with, or approval from, any government authority required to be obtained prior to the consummation of such transaction with respect to such documents' validity or enforceability shall have been obtained;

(6) each Subsidiary Guarantor and JV Subsidiary Guarantor shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person, as the case may be, in accordance with the Notes and the Indenture; and

(7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than in each case the Company or another Subsidiary Guarantor or JV Subsidiary Guarantor), unless each of the following conditions is met:

(1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Subsidiary Guarantor or JV Subsidiary Guarantor consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor) in accordance with the Indenture and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of such Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture and the Notes, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture and the Notes, as the case may be, shall remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under "*— Certain Covenants — Limitation on Indebtedness*";

(5) the Company shall deliver to the Trustee (x) an Officer's Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and

(6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the "*Limitation on Asset Sales*" covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee is unconditionally released in accordance with the provisions described under "*— The Subsidiary Guarantees and the JV Subsidiary Guarantees — Release of the Subsidiary Guarantees and the JV Subsidiary Guarantees*."

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing requirements shall not apply to (i) a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or another Subsidiary Guarantor or JV Subsidiary Guarantor, so long as such Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger. The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company or the Subsidiary Guarantors or JV Subsidiary Guarantors that may adversely affect Holders.

No Payments for Consents

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes, any Subsidiary Guarantee or JV Subsidiary Guarantee unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below and payments of all amounts due to the Trustee in accordance with the terms of the Indenture, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(1) the Company (a) has deposited with the Trustee, in trust, cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if

any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture and an Opinion of Counsel to the effect that the Holders have a valid, perfected, exclusive Lien over such trust;

(2) the Company has delivered to the Trustee an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the U.S. Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;

(3) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others; and

(4) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of the Restricted Subsidiaries is a party or by which the Company or any of the Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, each of the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) will terminate.

Defeasance of Certain Covenants

The Indenture will further provide that the provisions of the Indenture will no longer be in effect with respect to clauses (3) and (4) under the first and second paragraphs under "— *Consolidation, Merger and Sale of Assets*" and all the covenants described herein under "— *Certain Covenants*," other than as described under "— *Certain Covenants — Government Approvals and Licenses; Compliance with Law*" and "— *Certain Covenants — Anti-Layering*," clause (3) under "*Events of Default*" with respect to such clauses (3) and (4) under the first and second paragraphs under "— *Consolidation, Merger and Sale of Assets*" and with respect to the other events set forth in such clause, clause (4) under "— *Events of Default*" with respect to such other covenants and clauses (5), (6), (7) and (8) under "— *Events of Default*" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of cash in U.S. dollars and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture may be amended, without the consent of any Holder:

(1) to cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;

(2) to comply with the provisions described under "— *Consolidation, Merger and Sale of Assets*";

(3) to evidence and provide for the acceptance of appointment by a successor Trustee;

(4) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(5) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;

(6) to effect any changes to the Indenture in a manner necessary to comply with the procedures of the relevant clearing system;

(7) to add any Subsidiary Guarantor, JV Subsidiary Guarantor, Subsidiary Guarantee or JV Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantor from any JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;

(8) to conform the text of the Indenture, the Notes, the Subsidiary Guarantees or JV Subsidiary Guarantees (if any) to any provision of this "*Description of the Notes*" to the extent that such provision in this "*Description of the Notes*" was intended to be a verbatim recitation of a provision of the Indenture, the Notes, the Subsidiary Guarantees or JV Subsidiary Guarantees (if any); or

(9) to make any other change that does not adversely affect the rights of any Holder.

Amendments With Consent of Holders

Amendments of the Indenture may be made by the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company, the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) with any provision of the Indenture or the Notes; **provided, however, that** no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;

(2) reduce the principal amount of, or premium, if any, or interest on, any Note;

(3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;

(4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note, Subsidiary Guarantee or JV Subsidiary Guarantee;

(5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

(7) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(8) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;

(9) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders except as permitted by the Indenture;

(10) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale;

(11) change the redemption date or the redemption price of the Notes from that stated under "— *Optional Redemption*" or "— *Redemption for Taxation Reasons*";

(12) amend, change or modify the obligation of the Company, any Subsidiary Guarantor or JV Subsidiary Guarantor to pay Additional Amounts; or

(13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner which adversely affects the Holders.

In determining the compliance with this "— *Amendments and Waiver*," the Trustee shall be entitled to request for and fully rely on an Opinion of Counsel and/or an Officers' Certificate.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor in the Indenture, or in any of the Notes, the Subsidiary Guarantees or JV Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any Subsidiary Guarantor or JV Subsidiary Guarantor or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee and the Paying Agent

Citicorp International Limited is to be appointed as Trustee under the Indenture, Citibank, N.A., London Branch is to be appointed as registrar (the "**Registrar**") and paying and transfer agent (the "**Paying Agent**", together with the Trustee and the Registrar, the "**Agents**") with regard to the Notes. Except during the continuance of a Default, each of the Trustee, the Registrar and the Paying Agent undertakes to perform such duties and only such duties as are specifically set forth in the Indenture and the Notes, as the case may be, and no implied covenant or obligation shall be read into the Indenture or the Notes, as the case may be, against the Trustee, the Registrar, and the Paying Agent. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture or the Notes, as the case may be, as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

Pursuant to the terms of the Indenture or the Notes, as the case may be, the Company, the Subsidiary Guarantors and JV Subsidiary Guarantors will reimburse the Trustee for all expenses properly incurred.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is entitled to engage in other transactions with the Company and their Affiliates to benefit from them without being obliged to account for profit, if any. The Trustee may have an interest in, may be providing, or may in the future provide financial or other services to other parties.

The Trustee is entitled to rely on all instructions, notices, declarations, calculations and certifications received pursuant to the Indenture without investigating or being responsible for the accuracy, authenticity and validity of these instructions, notices, declarations, calculations and certifications.

The Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture for the benefit of the Holders unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. In the exercise of its duties, the Trustee shall not be responsible for the verification of the accuracy or completeness of any certification, opinion or other documents submitted to it by the Company and is entitled to rely conclusively on the information contained therein. Notwithstanding anything described herein, the Trustee has no duty to monitor the performance or compliance of the Company or any Restricted Subsidiary in the fulfilment of their respective obligations under the Indenture and the Notes.

Book-Entry; Delivery and Form

The Notes will initially be represented by a global note in registered form without interest coupons attached (the "**Initial Global Note**"). On the Original Issue Date, the Initial Global Note will be deposited with a common depositary and registered in the name of the common depositary or its nominee for the accounts of Euroclear and Clearstream. Any Additional Notes will be represented by additional global notes in registered form without interest coupons attached (the "**Additional Global Notes**" and, together with the Initial Global Note, the "**Global Notes**").

Global Notes

Ownership of beneficial interests in the Global Notes (the "**book-entry interests**") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under "— *Individual Definitive Notes*," the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Notes for all purposes under the Indenture and "holders" of book-entry interests will not be considered the owners or "Holders" of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and

Clearstream and indirect participants must rely on the procedures of the participants through which they own book- entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Notes

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and Additional Amounts) will be made to the Paying Agent in U.S. dollars. The Paying Agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company, the Subsidiary Guarantors and JV Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "—*Additional Amounts*."

Under the terms of the Indenture, the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors and the Trustee will treat the registered holder of the Global Notes (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors and the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or

- any action or failure to take action by Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; **provided, however, that** no book-entry interest of US$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Notes for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Notes will be subject to the restrictions on transfer discussed under "*Transfer Restrictions*."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants on the Business Day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

The Company understands as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors and the Trustee or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Individual Definitive Notes

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with "*— Events of Default*" and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depositary or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Note Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or first-class mail (if intended for the Company, the Subsidiary Guarantors and JV Subsidiary Guarantors) addressed at VCREDIT Holdings Limited at Suite 191F, 19/F, Two Pacific Place, 88 Queensway, Hong Kong (Attention: The Chief Executive Officer/The Company Secretary; Facsimile number: +852 2918 0859), (if intended for the Trustee), at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note Register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each Subsidiary Guarantor and JV Subsidiary Guarantor will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, and JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby and (2) designate and appoint Cogency Global Inc. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, Subsidiary Guarantees, JV Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "*Description of the Notes*" for which no definition is provided.

"**2021 Notes**" means the 11.0% Senior Notes due 2021 issued by the Company pursuant to an indenture dated June 20, 2019 by the Company.

"**Acquired Indebtedness**" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"**Adjusted Treasury Rate**" means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under "*Treasury Constant Maturities*", for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after the maturity date of the Notes, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

"**Affiliate**" means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step child, parent or step parent, brother, sister, step brother or step sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew or niece of a Person described in clause (1) or (2). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"**Applicable Premium**" means, with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the redemption price of such Note at December 3, 2022, plus all required remaining scheduled interest payments due on such Note (but excluding accrued and unpaid interest to the redemption date) through December 3, 2022, over (B) the principal amount of such Note on such redemption date. For the avoidance of doubt, calculation of the Applicable Premium shall not be the obligation of the Trustee or any of the Agents.

"**Asset Acquisition**" means (1) an investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary; or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

"**Asset Disposition**" means the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

"**Asset Sale**" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock of a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; **provided that** "**Asset Sale**" shall not include:

(1) sales or other dispositions of inventory, receivables and other current assets in the ordinary course of business;

(2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made by the covenant described under "*— Certain Covenants — Limitation on Restricted Payments*";

(3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(4) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or the Restricted Subsidiaries;

(5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;

(6) a transaction covered by the first paragraph of the covenant described under "*— Consolidation, Merger and Sale of Assets*"; and

(7) a sale, transfer or other disposition to the Company or a Restricted Subsidiary, including, without limitation, an issuance of Capital Stock by a Restricted Subsidiary to the Company or to another Restricted Subsidiary.

"**Attributable Indebtedness**" means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended.

"**Average Life**" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"**Bank Deposit Secured Indebtedness**" means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts of the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange US dollars or Hong Kong dollars into Renminbi or *vice versa*; **provided, however, that** the total deposits in such pledged bank accounts shall not at any time be less than 100% or exceed an amount equal to 110% of the aggregate outstanding principal amount of such Indebtedness (or the Dollar Equivalent thereof).

"**Board of Directors**" means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

"**Board Resolution**" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

"**Business Day**" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized or required by law or governmental regulation to close.

"**Capitalized Lease**" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with IFRS, is required to be capitalized on the balance sheet of such Person.

"**Capitalized Lease Obligations**" means the discounted present value of the rental obligations under a Capitalized Lease.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

"**Change of Control**" means the occurrence of one or more of the following events:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any "person" (within the meaning of Section 13(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**")), other than one or more Permitted Holders;

(2) the Permitted Holders are the beneficial owners (as such term is used in Rule 13d-3 of the Exchange Act) of less than 35% of the total voting power of the Voting Stock of the Company;

(3) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined above), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

(4) individuals who on the Original Issue Date constituted the Board of Directors, together with any new directors whose election to the Board of Directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors on the Original Issue Date or whose election was previously so approved, cease for any reason to constitute a majority of the Board of Directors then in office; or

(5) the adoption of a plan relating to the liquidation or dissolution of the Company.

"**Change of Control Triggering Event**" means the occurrence of both a Change of Control and, **provided that** the Notes are rated by at least two Rating Agencies, a Rating Decline.

"**Clearstream**" means Clearstream Banking S.A. and its successors.

"**Commodity Hedging Agreement**" means any commodities swap agreement, commodities cap agreement, commodities floor agreement, commodities futures agreement, commodities option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage commodities prices and commodities price risk.

"**Common Stock**" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and includes, without limitation, all series and classes of such common stock or ordinary shares.

"**Comparable Treasury Issue**" means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed on December 3, 2022 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to December 3, 2022.

"**Comparable Treasury Price**" means, with respect to any redemption date, if clause (ii) of the definition of Adjusted Treasury Rate is applicable, the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"**Consolidated Assets**" means, with respect to any Restricted Subsidiary at any date of determination, the Company's direct or indirect proportionate interest in the total consolidated assets of such Restricted Subsidiary and its Restricted Subsidiaries, measured in accordance with IFRS as of the last day of the Most Recent Balance Sheet Date.

"**Consolidated Debt**" means, with respect to any Person on any Transaction Date, an amount equal to (a) the sum of (1) the aggregate amount of all outstanding Indebtedness described in clauses (1), (2), (5), (8) and, without double counting, (7) (to the extent such Guarantee is in respect of Indebtedness described in clauses (1), (2), (5) and (8) of the definition of "Indebtedness") of the definition of "Indebtedness" of such Person and its Restricted Subsidiaries on a consolidated basis, plus (2) the aggregate liquidation preference of Disqualified Stock of the Company and Disqualified Stock and Preferred Stock of Restricted Subsidiaries; **provided that**, for purposes of this definition, clause (7) shall not include all Guarantees in respect of loans to the Company's online consumer finance borrowers funded through the Company's credit-enhanced loan facilitation structure, but shall instead only include guarantee liabilities, as shown on the date of the most recently ended fiscal quarter consolidated balance sheet (the "**Most Recent Balance Sheet Date**").

"**Consolidated Debt to Equity Ratio**" means, on any Transaction Date, the ratio of the Consolidated Debt of the Company as of the Most Recent Balance Sheet Date to the Consolidated Net Worth of the Company as of the Most Recent Balance Sheet Date.

In the event that the Company or any Restricted Subsidiary Incurs, assumes, Guarantees, redeems, repays, discharges, defeases, retires or extinguishes any Consolidated Debt (other than Consolidated Debt incurred under any revolving credit facility unless (x) such Indebtedness has been permanently repaid and has not been replaced or (y) such Indebtedness was reduced with proceeds of an Equity Offering or other Indebtedness) or issues or redeems Disqualified Stock or Preferred Stock subsequent to the Most Recent Balance Sheet Date for which the Consolidated Debt to Equity Ratio is being calculated but prior to or simultaneously with the event for which the calculation of the Consolidated Debt to Equity Ratio is made (the "**Consolidated Debt to Equity Ratio Calculation Date**"), then the Consolidated Debt to Equity Ratio shall be calculated giving pro forma effect to such Incurrence, assumption, Guarantee, redemption, repayment, discharge, defeasance, retirement or extinguishment of Indebtedness, or such Issuance or redemption of Disqualified Stock or Preferred Stock as if the same had occurred on the Most Recent Balance Sheet Date.

For purposes of making the computation referred to above, pro forma effect will be given to (a) any Investments, acquisitions, dispositions, mergers, consolidations and disposed operations as if all such Investments, acquisitions, dispositions, mergers, consolidations and disposed or discontinued operations had occurred on the Most Recent Balance Sheet Date and (b) the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the Most Recent Balance Sheet Date; **provided that** to the extent that this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation will be based upon one full fiscal quarter immediately preceding the Consolidated Debt to Equity Ratio Calculation Date of the Person or division or line of business of the Person, that is acquired or disposed for which financial information is available. For the avoidance of doubt, pro forma effect will be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during the most recently ended fiscal quarter that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such period.

"**Consolidated Net Income**" means, with respect to any Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with IFRS; **provided that** the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:

    (a) subject to the exclusion contained in clause (5) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

(b) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;

(2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of the Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of the Restricted Subsidiaries;

(3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other constitutive document or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles;

(5) any net after tax gains realized on the sale or other disposition of (a) any property or asset of the Company or any Restricted Subsidiary that is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company or a Restricted Subsidiary realized on sales of Capital Stock of the Company or of any Restricted Subsidiary);

(6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and

(7) any net after-tax extraordinary or non-recurring gains.

"**Consolidated Net Worth**" means, at any date of determination, stockholders' equity as set forth on the most recently available consolidated balance sheet of the Company and the Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of the Restricted Subsidiaries, intangible assets and deferred tax assets, each item to be determined in conformity with IFRS; **provided that** for the determination of the Consolidated Debt to Equity Ratio, Consolidated Net Worth is determined on a pro forma basis in a manner consistent with the pro forma basis contained in the definition of "Consolidated Debt to Equity Ratio."

"**Currency Hedging Agreement**" means any currency swap agreement, currency cap agreement, currency floor agreement, currency futures agreement, commodity option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage currencies and currency risk.

"**Debt Service Account**" means the interest bearing U.S. dollar (or other currency) account (account number 012-875-2-005603-0 (Foreign Currency account — USD)) held by the Company with Bank of China (Hong Kong) Limited.

"**Default**" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"**Disqualified Stock**" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; **provided that** any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the date that is 183 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the "*— Limitation on Asset Sales*" and "*— Repurchase of Notes upon a Change of Control Triggering Event*" covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company's repurchase of such Notes as are required to be repurchased pursuant to the covenants described under "*— Certain Covenants — Limitation on Asset Sales*" and "*— Repurchase of Notes upon a Change of Control Triggering Event*."

"**Dollar Equivalent**" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the noon buying rate for U.S. dollars in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on the date of determination.

"**Equity Offering**" means (i) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a Person controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; **provided that** any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US$20 million (or the Dollar Equivalent thereof).

"**Euroclear**" means Euroclear Bank SA/NV and its successors.

"**Fair Market Value**" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"**Fitch**" means Fitch Ratings Ltd., a subsidiary of the Fitch Group, a jointly owned subsidiary of Fimalae, S.A. and Hearst Corporation, and its successors.

"**Guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); **provided that** the term "**Guarantee**" shall not include endorsements for collection or deposit in the ordinary course of business. The term "**Guarantee**" used as a verb has a corresponding meaning.

"**Hedging Obligation**" of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement.

"**Holder**" means the Person in whose name a Note is registered in the Note register.

"**IFRS**" means International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with IFRS applied on a consistent basis.

"**Incur**" means, with respect to any Indebtedness or Disqualified Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Disqualified Stock; **provided that** (1) any Indebtedness and Disqualified Stock of a Person existing at the time such Person becomes a Restricted Subsidiary will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "**Incurrence**," "**Incurred**" and "**Incurring**" have meanings correlative with the foregoing.

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(5) all Capitalized Lease Obligations and Attributable Indebtedness;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; **provided that** the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;

(7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person, excluding Guarantees, provided in the ordinary course of business, by the Company or any Restricted Subsidiary of loans to the Company's online consumer finance borrowers funded through the Company's credit-enhanced loan facilitation structure;

(8) to the extent not otherwise included in this definition, Hedging Obligations;

(9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus, to the extent not included therein, accrued dividends; and

(10) any Preferred Stock issued by (a) such Person, if such Person is a Restricted Subsidiary or (b) any Restricted Subsidiary of such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus, to the extent not included therein, accrued dividends;

provided, however, that any amount of unpaid purchase price retained by the Company or any Restricted Subsidiary in the ordinary course of business in connection with an acquisition of equipment or other assets pending full operation or contingent on certain conditions during a warranty period of such equipment or assets in accordance with the terms of the acquisition shall be excluded.

For the avoidance of doubt, a mandatory put option granted to a Person that obligates the Company or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person shall be deemed to be "Indebtedness."

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of personal property (including land use rights) to be used in a Permitted Business; **provided that** such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; **provided**

(1) **that** the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with IFRS;

(2) **that** money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and

(3) **that** the amount of Indebtedness with respect to any Hedging Obligation shall be (i) zero if Incurred pursuant to paragraph 2(e) under the "*Limitation on Indebtedness*" covenant or (ii) equal to the net amount payable if the Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement giving rise to such Hedging Obligation terminated at that time due to default by such Person.

"**Independent Third Party**" means any Person that is not an Affiliate of the Company.

"**Interest Rate Hedging Agreement**" means any interest rate swap agreement, interest rate cap agreement, interest rate floor agreement, interest rate future contract, interest rate option agreement or any other similar agreement or arrangement which may consist of one or more of any of the foregoing agreements, designed to manage interest rates and interest rate risk.

"**Investment**" means:

(1) any direct or indirect advance, loan or other extension of credit to another Person;

(2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);

(3) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or

(4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the covenants described under "*— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries*" and "*— Certain Covenants — Limitation on Restricted Payments*": (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the Company's proportionate interest in the assets (net of the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary calculated as of the time of such designation; **provided, however, that** any such amount shall be deemed not to be an Investment in an Unrestricted Subsidiary if a Restricted Subsidiary (including a PRC Restricted Subsidiary) is designated as an Unrestricted Subsidiary under the second paragraph of the covenant described under "*— Certain Covenants Designation of Restricted and Unrestricted Subsidiaries*" (and, for avoidance of doubt, following any such designation as Unrestricted Subsidiary as described in this proviso, the cumulative Consolidated Net Income of such Unrestricted Subsidiary and all of its Subsidiaries during any period it remains an Unrestricted Subsidiary shall be disregarded for the purpose of determining the aggregate amount of Restricted Payments permitted under clause (4)(c) of the covenant described under "*— Limitation of Restricted Payments*") (2) if the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Capital Stock of such Person not sold or disposed of and (3) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"**Investment Grade**" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns, a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's or any of its successors or assigns, or a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody's or Fitch or two or three of them, as the case may be.

"**JV Entitlement Amount**" means, with respect to any JV Subsidiary Guarantor which is not a Subsidiary of another JV Subsidiary Guarantor, together with its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

"**JV Subsidiary Guarantee**" means any Guarantee of the obligations of the Company under the Indenture and the Notes by any JV Subsidiary Guarantor.

"**JV Subsidiary Guarantor**" means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"**Moody's**" means Moody's Investors Service, Inc. and its successors.

"**NDRC**" means the National Development and Reform Commission of the PRC.

"**NDRC Notice**" means the Notice on the Administrative Reform for the Registration of Offshore Debt Issuances (國家發展改革委關于推進企業發行外債備案登記制管理改革的通知) issued by the NDRC on September 14, 2015, as amended or supplemented from time to time.

"**Net Cash Proceeds**" means:

(1) with respect to any Asset Sale (other than the issuance or sale of Capital Stock), the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not

interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:

(a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;

(b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and the Restricted Subsidiaries, taken as a whole;

(c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and

(d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with IFRS and reflected in an Officers' Certificate delivered to the Trustee; and

(2) with respect to any Asset Sale consisting of the issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"**Offer to Purchase**" means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(1) the provision in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "**Offer to Purchase Payment Date**");

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "**Option of the Holder to Elect Purchase**" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; **provided that** each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and upon receipt of written order of the Company signed by an Officer the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; **provided that** each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"**Officer**" means one of the executive officers of the Company or, in the case of a Restricted Subsidiary, one of the directors or officers of such Restricted Subsidiary.

"**Officers' Certificate**" means a certificate signed by two Officers of the issuing Person and to the extent the issuing Person only has one Officer, then a certificate signed by such Officer.

"**Opinion of Counsel**" means a written opinion from external legal counsel selected by the Company, **provided that** such counsel shall be acceptable to the Trustee in its sole discretion.

"**Original Issue Date**" means the date on which the Notes are originally issued under the Indenture.

"***Pari Passu* Guarantee**" means a Guarantee by the Company, any Subsidiary Guarantor or JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes), any Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; **provided that** (1) the Company and such Subsidiary Guarantor or JV Subsidiary Guarantor were permitted to Incur such Indebtedness by the covenant described under "*— Limitation on Indebtedness*" and (2) such Guarantee ranks *pari passu* with the Notes or any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

"**Permitted Businesses**" means any business which is the same as or ancillary or complementary to any of the businesses of the Restricted Subsidiaries on the Original Issue Date.

"**Permitted Holders**" means any or all of the following:

(1) Ma Ting Hung, Liu Sai Wang Stephen, Kwok Lim Ying and Liu Sai Keung Thomas;

(2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Person specified in clause (1); and

(3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more of the Persons specified in clauses (1) and (2).

"**Permitted Investment**" means:

(1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or will be merged or consolidated with or into, or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;

(2) cash or Temporary Cash Investments;

(3) payroll, travel and similar advances made in the ordinary course of business to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with IFRS;

(4) stock, obligations or securities received in satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;

(7) receivables, trade credits or other current assets owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(8) Investments consisting of consideration received in connection with an Asset Sale under clause 4(b) of, and made in compliance with, the covenant described under "— *Certain Covenants — Limitation on Asset Sales*";

(9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under "— *Certain Covenants — Limitation on Liens*";

(10) loans or advances to vendors, contractors, suppliers or distributors, including advance payments for equipment and machinery made to the manufacturer thereof, of the Company or any Restricted Subsidiary in the ordinary course of business and dischargeable in accordance with customary trade terms;

(11) Investments in existence on the Original Issue Date;

(12) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of a Permitted Business;

(13) deposits made in order to secure the performance of the Company or any Restricted Subsidiary and prepayments made in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of a Permitted Business;

(14) Investments consisting of purchases and acquisitions of inventory, supplies, materials, tooling and equipment or purchases of contract rights or licenses or leases of intellectual property, in each case in the ordinary course of business;

(15) any Investments received in compromise, settlement or resolution of (A) obligations of trade creditors, trade debtors or customers that were incurred in the ordinary course of business of the Company or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor, trade debtor or customer; or (B) litigation, arbitration or other disputes;

(16) deposits made to secure bank guarantees, performance bonds or bonds given to customers or suppliers to secure performance of contracts in the ordinary course of business;

(17) Guarantees not prohibited by the covenant described under "— *Certain Covenants — Limitation on Indebtedness*";

(18) repurchases of Notes; and

(19) any Investment in the Company's online consumer finance borrowers (a) by the making of loans to them in the ordinary course of business, which are funded through the Company's direct lending structure or trust lending structures, (b) by the provision of Guarantees in the ordinary course of business on loans extended to them through the Company's credit-enhanced loan facilitation structures or (c) through other similar loan structures as part of the Company's ordinary course Permitted Business.

For the avoidance of doubt, the value of each Investment made pursuant to this clause shall be valued at the time such Investment is made.

"**Permitted Liens**" means:

(1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with IFRS shall have been made;

(2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with IFRS shall have been made;

(3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and the Restricted Subsidiaries, taken as a whole;

(5) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person (i) becomes a Restricted Subsidiary or (ii) is merged with or into or consolidated with the Company or any Restricted Subsidiary; **provided that** such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets of such Person (if such Person becomes a Restricted Subsidiary) or the property or assets acquired by the Company or such Restricted Subsidiary (if such Person is merged with or into or consolidated with the Company or such Restricted Subsidiary); **provided further that** such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(6) Liens in favor of the Company or any Restricted Subsidiary;

(7) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that do not give rise to an Event of Default;

(8) Liens securing reimbursement obligations with respect to letters of credit, performance and surety bonds and completion guarantees that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(9) Liens existing on the Original Issue Date or Incurred simultaneously and in connection with the closing of the issuance of the Notes;

(10) Liens securing Indebtedness which is Incurred to refinance Secured Indebtedness which is permitted to be Incurred under clause (2)(d) of the covenant described under "— *Certain Covenants Limitation on Indebtedness*," **provided that** such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(11) Liens securing Hedging Obligations permitted to be Incurred under clause (2)(e) of the covenant described under "— *Certain Covenants — Limitation on Indebtedness*," **provided that** (i) Indebtedness relating to any such Hedging Obligation is, and is permitted under the covenant described under "— *Certain Covenants — Limitation on Liens*" to be, secured by a Lien on the same property securing such Hedging Obligation or (ii) such Liens are encumbering customary initial deposits or margin deposits or are otherwise within the general parameters customary in the industry and incurred in the ordinary course of business;

(12) Liens securing Attributable Indebtedness that is permitted to be Incurred under the Indenture;

(13) Liens on deposits securing trade letters of credit (and reimbursement obligations relating thereto) incurred in the ordinary course;

(14) Liens securing Indebtedness Incurred and continuing to be classified as outstanding under clause (2)(j) of the covenant described under "— *Certain Covenants — Limitation on Indebtedness*"; **provided that** such Lien (i) covers only the property or assets acquired, constructed or improved with such Indebtedness and (ii) is created within 180 days of such acquisition or completion of construction or improvement;

(15) any interest or title of a lessor in the property subject to any operating lease;

(16) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;

(17) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(18) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(19) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(20) Liens incurred on one or more bank accounts (a) to secure Bank Deposit Secured Indebtedness permitted under clause (2)(l) of the covenant described under "— *Limitation on Indebtedness and Preferred Stock*" covenant or (b) to secure the Guarantees described under clause (19)(b) of the definition of "Permitted Investment", **provided that** such Guarantee is permitted to be Incurred under the Indenture; **provided further that** any such Lien incurred under this clause (20)(b) shall not exceed the amount of guarantee liabilities to be allocated with respect to the underlying Guarantee in conformity with IFRS;

(21) Liens securing Indebtedness Incurred and continuing to be classified as outstanding under clause (2)(p) of the covenant described under "— *Certain Covenants — Limitation on Indebtedness*";

(22) Liens securing Indebtedness not otherwise specifically permitted under clauses (1) through (21) above; **provided that** the aggregate amount outstanding of Indebtedness permitted by this clause (22) at any time does not exceed US$5.0 million (or the Dollar Equivalent thereof).

"**Permitted Subsidiary Indebtedness**" means any Indebtedness of, and all Preferred Stock issued by, the Non-Guarantor Restricted Subsidiaries; **provided that**, on the date of Incurrence of such Indebtedness, and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness and all Preferred Stock issued by the Non-Guarantor Restricted Subsidiaries (excluding any Indebtedness of any Non-Guarantor Restricted

Subsidiary permitted under clause (2)(c) or (e) of the covenant described under "— *Certain Covenants — Limitation on Indebtedness*") does not exceed an amount equal to 15% of Total Assets (or the Dollar Equivalent thereof).

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"**PRC**" means the People's Republic of China.

"**PRC Restricted Subsidiary**" means a Restricted Subsidiary organized under the laws of the PRC.

"**Preferred Stock**" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"**Rating Agencies**" means (1) S&P; (2) Moody's; and (3) Fitch, **provided that** if S&P, Moody's or Fitch, two of any of the three or all three of them shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody's, Fitch, two of any of the three or all three of them, as the case may be.

"**Rating Category**" means (1) with respect to S&P, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (2) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca," "C" and "D" (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody's or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P; "1," "2" and "3" for Moody's; "+" and "-" for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (*e.g.*, with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "BB-" to "B+," will constitute a decrease of one gradation).

"**Rating Date**" means (i) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (ii) in connection with actions contemplated under "— *Consolidation, Merger and Sale of Assets*," that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

"**Rating Decline**" means (i) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below or (ii) in connection with actions contemplated under "*— Consolidation, Merger and Sale of Assets*," the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

(a) in the event the Notes are rated by all three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any of such Rating Agencies shall be below Investment Grade;

(b) in the event the Notes are rated by any two, but not all three, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any of such two Rating Agencies shall be below Investment Grade;

(c) in the event the Notes are rated by one, and only one, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

(d) in the event the Notes are rated by three or less than three Rating Agencies and are rated below Investment Grade by all such Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"**Reference Treasury Dealer**" means each of any three investment banks of recognized international standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Company, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

"**Restricted Subsidiary**" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

"**Sale and Leaseback Transaction**" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended.

"**Senior Indebtedness**" of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the

Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; **provided that** Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

"**Significant Restricted Subsidiary**" means any Restricted Subsidiary, or any group of Restricted Subsidiaries that, taken together, would be a "significant subsidiary" using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-102(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of the Indenture, if any of the conditions exceeds 5%.

"**Stated Maturity**" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"**Subordinated Indebtedness**" means any Indebtedness of the Company, any Subsidiary Guarantor or JV Subsidiary Guarantor that is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

"**Subsidiary**" means, with respect to any Person, any corporation, association, trust or other business entity (x) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (y) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is consolidated by such Person in accordance with IFRS (including any trust providing loans to customers in connection with the Company's trust lending structure that is consolidated with the Company); **provided, however, that** with respect to clause (y), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be consolidated by such Person under IFRS and to constitute a Subsidiary of such Person shall be deemed to be a designation of such corporation, association, trust or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of "*Designation of Restricted and Unrestricted Subsidiaries*" covenant.

"**Subsidiary Guarantee**" means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

"**Subsidiary Guarantor**" means the Initial Guarantors named herein and any other Restricted Subsidiary that Guarantees the obligations of the Company under the Indenture and the Notes; **provided that** "**Subsidiary Guarantor**" does not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

"**Temporary Cash Investment**" means any of the following:

(1) direct obligations of the United States of America, Hong Kong or any agency of either of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, Hong Kong or any agency of either of the foregoing, in each case maturing within one year;

(2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States of America, any state thereof, United Kingdom, Singapore, Germany, Japan or Hong Kong and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 3(a)(62) under the Exchange Act);

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's, "A-1" (or higher) according to S&P or F1 (or higher) according to Fitch;

(5) securities with maturities of six months or less from the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A-" by S&P or Fitch or "A-3" by Moody's; and

(6) demand or time deposit accounts, certificates of deposit and money market deposits with (i) China Construction Bank, Shanghai Pudong Development Bank, Industrial and Commercial Bank of China, Bank of China, Bank of East Asia, Bank of Qingdao and Bank of Shanghai (ii) any other bank or trust company organized under the laws of the PRC whose long-term debt is rated as high or higher than any of those banks listed in clause (i) of this paragraph or (iii) any other bank organized under the laws of the PRC; **provided that**, in the case of clause (iii), such deposits do not exceed US$10 million (or the Dollar Equivalent thereof) with any single bank or US$30 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination thereafter.

"**Total Assets**" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with IFRS as of the last date of the most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements); **provided that** Total Assets shall be calculated after giving *pro forma* effect to include (i) the cumulative value of all of the assets the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder in each case as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness and (ii) the cumulative value of all assets owned by a Person acquired by the Company or any Restricted Subsidiary (**provided that** such Person becomes a Restricted Subsidiary) which requires or required the Incurrence of Indebtedness and calculation of Total Assets hereunder in each case as of such date, as measured by the Fair Market Value of such assets, in each case of (i) or (ii) with respect to events that occurred after the last date of such most recently ended fiscal quarter.

"**Trade Payables**" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable in accordance with customary trade terms.

"**Transaction Date**" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"**Unrestricted Subsidiary**" means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

"**U.S. Government Obligations**" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the Company thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; **provided that** (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"**Voting Stock**" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"**Wholly Owned**" means, with respect to any Restricted Subsidiary, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by the Company or one or more Wholly Owned Subsidiaries of the Company.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following summary of the principal terms of the instruments governing our material indebtedness does not purport to be a complete description of all of the terms of these instruments. Investors should read the consolidated financial information contained elsewhere in this offering memorandum for additional information about our indebtedness.

2021 Notes

On June 21, 2019, we entered into an indenture (as amended and supplemented from time to time, the "**2021 Notes Indentures**") pursuant to which we issued the US$100,000,000 principal amount of the 11.0% Senior Note due 2021. As of the date of this offering memorandum, all of the 2021 Notes remained outstanding.

Guarantee

The obligations pursuant to the 2021 Notes are guaranteed by the subsidiary guarantors specified in the relevant 2021 Notes Indenture (the "**2021 Notes Subsidiary Guarantors**"). Under certain circumstances and subject to certain conditions, a guarantee by a 2021 Notes Subsidiary Guarantor may be replaced by a limited recourse guarantee, referred to as a JV subsidiary guarantee in the relevant 2021 Notes Indenture. The 2021 Notes Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the 2021 Notes.

Interest

The 2021 Notes bear an interest rate of 11.0% per annum. Interest is payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2021 Notes Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;

- entering into sale and leaseback transactions;

- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends;

- entering into transactions with shareholders or affiliates; and

- effecting a consolidation or merger.

Events of Default

The 2021 Notes Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the 2021 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the 2021 Notes Indenture. If an event of default occurs and is continuing, the trustee under the 2021 Notes Indenture or the holders of at least 25% of the outstanding 2021 Notes may declare the principal of the 2021 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control Triggering Event

Upon the occurrence of a certain event of change of control and a rating decline, we are obligated to make an offer to repurchase all outstanding 2021 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest, if any, to (but not including) the repurchase date.

Maturity and Redemption

The maturity date of the 2021 Notes is June 20, 2021. At any time and from time to time, we may redeem up to 35% of the aggregate principal outstanding amount of the Notes at a redemption price of 106.062% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, subject to certain conditions. In addition, we may redeem the 2021 Notes, in whole but not in part, at any time, at a redemption price equal to 100% of the principal amount of the 2021 Notes, plus a premium and any accrued and unpaid interest, if any, to the redemption date.

LOANS FROM CORPORATE LENDERS

Guangnan Loan Agreements

Pursuant to three loan agreements dated February 6, 2017, June 4, 2017 and October 13, 2017 entered into between VC Financial Technology and Shanghai Guangnan Real Estate Development Company Limited (上海廣南地產發展有限公司) ("**Guangnan**"), an independent third party, Guangnan granted a loan of RMB70,000,000, RMB400,000,000 and RMB200,000,000, respectively (collectively, the "**Guangnan Loan Agreements**"). The loans had a term of one year beginning from the date of drawdown. As of September 30, 2020, RMB530,000,000 under the Guangnan Loan Agreements remained outstanding.

Interest

Under the Guangnan Loan Agreements, interest is charged at 10% per annum. Any overdue amount will be subject to penalty interest from the due date up to the date of actual payment at a rate of 4% per annum over the applicable interest rate. Following the extension of the RMB70,000,000 loan granted under the loan agreement dated February 6, 2017, interest is charged at 12% per annum.

Guarantee

The loans are guaranteed by Vision Credit HK and certain affiliates of VC Financial Technology affiliates, namely Vision Small Loan Chengdu, VC Guarantee, Vision Information Qingdao and Vision Small Loan Shanghai.

TRANSFER RESTRICTIONS

*Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes, including the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) (collectively, the "**Securities**").*

The Securities are subject to restrictions on transfer as summarized below. By purchasing the Securities, you will be deemed to have made the following acknowledgements, representations to, and agreements with, us and the Joint Lead Managers:

1. You understand and acknowledge that:

   - the Securities have not been registered under the Securities Act or any other applicable securities laws;

   - the Securities are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;

   - the Securities are being offered and sold only outside the United States in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and

   - unless so registered, the Securities may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws.

2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that you are purchasing the Securities in an offshore transaction in accordance with Regulation S.

3. You acknowledge that neither we nor the Joint Lead Managers nor any person representing us or the Joint Lead Managers has made any representation to you with respect to us or the offering of the Securities, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Securities. You agree that you have had access to such financial and other information concerning us and the Securities as you have deemed necessary in connection with your decision to purchase the Securities including an opportunity to ask questions of and request information from us.

4. You represent that you are purchasing the Securities for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Securities in violation of the Securities Act.

5. You also acknowledge that each Note will contain a legend substantially to the following effect:

   THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

6. You acknowledge that we, the Joint Lead Managers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Securities is no longer accurate, you will promptly notify us and the Joint Lead Managers. If you are purchasing any Securities as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

7. You understand that the Notes will be represented by a global note and that transfers thereto are restricted as described under "Description of the Notes — Book-Entry; Delivery and Form."

TAXATION

The following summary of certain Cayman Islands, British Virgin Islands, Hong Kong and United States tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes.

Cayman Islands Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

Pursuant to the Tax Concession Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet; (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and (b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking is for a period of twenty years from April 17, 2018.

The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not a party to any double taxation treaties.

British Virgin Islands Taxation

There is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the BVI Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

Hong Kong Taxation

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "**Inland Revenue Ordinance**") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

- a corporation carrying on a trade, profession or business in Hong Kong; or

- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong) of a Note.

PLAN OF DISTRIBUTION

Haitong International Securities Company Limited is acting as Sole Global Coordinator, and Haitong International Securities Company Limited and Opus Capital Limited are acting as Joint Lead Managers and Joint Bookrunners for the offering of the Notes and as the Initial Purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, the Initial Purchasers named below has agreed to purchase, and we have agreed to sell to such Initial Purchasers, the principal amount of the Notes set forth opposite such Initial Purchasers' name.

Initial Purchasers	Principal Amount of Notes
Haitong International Securities Company Limited	US$8,000,000
Opus Capital Limited	US$ 57,000
Total	US$8,057,000

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers must purchase all the Notes if they purchase any of the Notes.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum in reliance on Regulation S. We will pay the Initial Purchasers customary fees and commissions in connection with the offering and will reimburse the Initial Purchasers for certain expenses incurred in connection with the offering.

We have agreed that, for a period of 40 days from the date of the Purchase Agreement, we will not, without the prior written consent of the Initial Purchasers, directly or indirectly, issue, sell, offer or agree to sell, pledge, grant any option to purchase, make a short sale or otherwise dispose of, any other debt securities of the Company or debt securities guaranteed by the Company or securities of the Company that are convertible into, or exchangeable for, the Notes or such other debt securities. The Initial Purchasers in their sole discretion may consent to the offering and sales of debt securities by us at any time without notice.

Application has been made to SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers has advised us that they currently intend to make a market in the Notes. However, the Initial Purchasers is not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

In connection with the offering, the Initial Purchasers (as "**Stabilizing Managers**") (or any person acting for it) may directly, purchase and sell the Notes in the open market. These transactions may, to the extent permitted by applicable laws and regulations, include short sales, purchases on the open market to cover positions created by short sales and stabilizing purchases. Short sales involve the sale by Stabilizing Managers of a greater principal amount of the Notes than they are required to purchase in the offering. Stabilizing Managers must close out any short position by purchasing the Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions involve bids to purchase the Notes so long as the stabilizing bids do not exceed a specified maximum.

Similar to other purchase transactions, Stabilizing Managers' purchases to cover the syndicate short sales and stabilizing purchasers may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither the Company nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither the Company nor the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

We expect to deliver the Notes against payment for the Notes on or about the date specified on the cover page of this offering memorandum, which will be the fourth business day following the date of the pricing of the Notes.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Initial Purchasers and their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with us and/or our subsidiaries and affiliates for which they have received, or will receive, fees and expenses. In connection with the offering of the Notes, the Initial Purchasers or any of their respective affiliates may purchase the Notes for their own accounts and enter into transactions, including repackaging and other transactions.

We have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

SELLING RESTRICTIONS

General

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchaser that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

United States

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in compliance with an available exemption from registration under the Securities Act.

European Economic Area

The Initial Purchasers have represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this offering memorandum in relation thereto to any retail investor in the European Economic Area or United Kingdom. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

No invitation or inducement to engage in investment activity (within the meanings of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by the Initial Purchasers in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which Section 21(1) of the FSMA does not apply to the Initial Purchasers. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the Initial Purchasers in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the "**FIEL**"), and disclosure under the FIEL has not been made with respect to the Notes. Accordingly, the Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for re-offering or resale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, "resident of Japan" means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time including any subsidiary legislation as may be applicable at the relevant time (together, the "**SFA**"). Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes may not be circulated or distributed, nor may any Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

2) where no consideration is or will be given for the transfer;

3) where the transfer is by operation of law; or

4) as specified in Section 276(7) of the SFA.

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

PRC

The Initial Purchasers have acknowledged that this offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. The Initial Purchasers have represented and agreed that, except to the extent consistent with applicable laws and regulations in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements in the PRC, with the exception to the extent consistent with applicable laws and regulations in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

British Virgin Islands

No invitation has been or will be made directly or indirectly to the public in the British Virgin Islands or any natural person resident or citizen in the British Virgin Islands to subscribe for any of the Notes. This offering memorandum does not constitute, and will not be, an offering of the Notes to any person in the British Virgin Islands.

Cayman Islands

The Initial Purchasers have not offered or sold, and will not offer or sell, any of the Notes in the Cayman Islands. This offering memorandum does not constitute, and will not be, an offering of the Notes to any person in the Cayman Islands.

LEGAL MATTERS

Certain legal matters in connection with the offering will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom as to matters of Hong Kong law, Skadden, Arps, Slate, Meagher & Flom LLP as to matters of United States federal and New York law, Jingtian & Gongcheng as to matters of PRC law, Harney Westwood & Riegels as to matters of Cayman Islands law and British Virgin Islands law. Certain legal matters will be passed upon for the Joint Lead Managers by Clifford Chance as to matters of United States federal and New York law and DaHui Lawyers as to matters of PRC law.

CERTIFIED PUBLIC ACCOUNTANTS

The consolidated financial statements as of and for the years ended 2017, 2018 and 2019 included in this offering memorandum, have been audited by PricewaterhouseCoopers, independent auditors, in accordance with International Standards on Auditing as stated in their reports appearing herein.

Our unaudited condensed consolidated interim financial information as of and for the six months ended June 30, 2020 and as of and for the nine months ended September 30, 2020 included elsewhere in this offering circular has been reviewed by PricewaterhouseCoopers in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable PricewaterhouseCoopers to obtain assurance that it would become aware of all significant matters that might be identified in an audit. Accordingly, PricewaterhouseCoopers does not express an audit opinion with respect to such unaudited condensed consolidated interim financial information. The degree of reliance on such information should be restricted in light of the limited nature of the review procedure applied.

GENERAL INFORMATION

Documents Available

For so long as any of the Notes are outstanding, copies of the Indenture governing the Notes may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the last two financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

Clearing System and Settlement

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream with an International Securities Identification Number of XS2263287935, a Common Code of 226328793 and LEI number of 549300UM6P7HTFMNQY83.

Authorizations and Consents

The Company and the Subsidiary Guarantors have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the British Virgin Islands, the PRC and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture governing the Notes and the issue of the Notes have been authorized by a meeting of the board of directors of the Company held on November 17, 2020.

No Material Adverse Change

There has been no material adverse change, or any development reasonably likely to involve an adverse change, in the financial or trading position, prospects or results of operations of the Company or the Group since September 30, 2020.

Litigation

None of the Company and the Subsidiary Guarantors is involved in any litigation or arbitration proceedings which are material in the context of the Notes nor is the Company or any Subsidiary Guarantor aware that any such proceedings are pending or threatened.

Listing of Notes

A confirmation of the eligibility of the listing of the Notes has been received from the SEHK. Application will be made to the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. Notes to be listed on the SEHK are required to be traded with a board lot size of at least HK$500,000 (or equivalent in other currencies).

Auditors

The audited consolidated financial statements of the Group as of and for the years ended 2017, 2018 and 2019, which are included elsewhere in this offering memorandum, have been audited by PricewaterhouseCoopers, Certified Public Accountants, in accordance with International Standards on Auditing as stated in the reports appearing herein.

INDEX TO FINANCIAL INFORMATION PAGE

Unaudited interim condensed consolidated financial information as of and for the nine months ended September 30, 2020[1]

Unaudited interim condensed consolidated financial information as of and for the six months ended June 30, 2020 [1]

Audited consolidated financial statements as of and for the year ended December 31, 2019 [1]

Audited consolidated financial statements as of and for the year ended December 31, 2018 [1]

Note:

(1) The audited consolidated financial statements and the unaudited condensed consolidated interim financial information set out herein are derived from our annual reports for the years ended December 31, 2018 and 2019, our interim report for the six months ended June 30, 2020 and our unaudited consolidated financial statements for the nine months ended September 30, 2020, and page references are references to pages set forth in such documents. The audited consolidated financial statements and the unaudited condensed consolidated interim financial information have not been specifically prepared for the inclusion in this offering memorandum.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of VCREDIT Holdings Limited
(registered by way of continuation in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 8 to 42, which comprises the interim condensed consolidated statement of financial position of VCREDIT Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at September 30, 2020 and the interim condensed consolidated statement of comprehensive income for the three-month and nine-month periods then ended, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Other Matter

The comparative information for the interim condensed consolidated statement of financial position is based on the audited consolidated financial statements as at December 31, 2019. The comparative information for the interim condensed consolidated statement of comprehensive income for the three months ended Setpember 30, 2019 and nine months ended September 30, 2019, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the nine months ended September 30, 2019, and related explanatory notes, for the nine months ended September 30, 2019 has not been audited or reviewed.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, November 18, 2020

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Continuing operations					
Interest type income	*6*	**406,007**	665,493	**1,716,593**	1,818,126
Less: interest expenses	*6*	**(152,099)**	(219,777)	**(598,583)**	(615,716)
Net interest type income	*6*	**253,908**	445,716	**1,118,010**	1,202,410
Loan facilitation service fees	*7*	**249,336**	540,694	**487,509**	1,113,559
Other income	*8*	**223,358**	43,292	**324,909**	573,952
Total income		**726,602**	1,029,702	**1,930,428**	2,889,921
Origination and servicing expenses	*9*	**(232,991)**	(231,909)	**(603,331)**	(533,793)
Sales and marketing expenses	*9*	**(4,522)**	(7,607)	**(13,303)**	(22,306)
General and administrative expenses	*9*	**(64,651)**	(122,984)	**(217,851)**	(404,000)
Research and development expenses	*9*	**(16,089)**	(24,606)	**(52,989)**	(63,528)
Credit impairment losses	*10*	**(53,871)**	(129,037)	**(218,879)**	(253,198)
Fair value change of loans to customers	*5.2.1*	**(251,607)**	(416,864)	**(2,051,714)**	(1,456,970)
Other gains/(losses), net	*11*	**24,762**	(16,308)	**16,209**	(18,376)
Operating (loss)/profit		**127,633**	80,387	**(1,211,430)**	137,750
Share of net (loss)/profit of associates accounted for using the equity method		**104**	445	**(11,131)**	1,437
(Loss)/Profit before income tax		**127,737**	80,832	**(1,222,561)**	139,187
Income tax credit/(expense)	*12*	**(37,298)**	(34,822)	**231,772**	(87,003)
(Loss)/Profit for the period attributable to:					
Owners of the Company		**90,433**	46,010	**(990,807)**	52,184
Non-controlling interests		**6**	—	**18**	—
		90,439	46,010	**(990,789)**	52,184

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	**2020**	2019
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Other comprehensive income					
Items that may be reclassified to profit or loss					
Exchange difference on translation of financial statements		**(3,904)**	2,624	**448**	2,053
Total comprehensive (loss)/income for the period, net of tax		**86,535**	48,634	**(990,341)**	54,237
Total comprehensive (loss)/income attributable to:					
Owners of the Company		**86,529**	48,634	**(990,359)**	54,237
Non-controlling interests		**6**	—	**18**	—
Basic (loss)/earnings per share *(RMB Yuan)*	*13*	**0.18**	0.09	**(1.98)**	0.11
Diluted (loss)/earnings per share *(RMB Yuan)*	*13*	**0.18**	0.09	**(1.98)**	0.10

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at September 30, 2020** *RMB'000* **(Unaudited)**	As at December 31, 2019 *RMB'000* (Audited)
Assets			
Cash and cash equivalents	*14(a)*	**1,352,627**	2,169,522
Restricted cash	*14(b)*	**238,313**	264,584
Loans to customers at fair value through profit or loss	*15*	**4,168,741**	9,457,673
Contract assets	*16*	**296,242**	523,022
Guarantee receivables	*17*	**702,020**	621,248
Financial assets at fair value through profit or loss	*18*	**20,284**	280
Investments accounted for using the equity method	*19*	**20,566**	37,430
Deferred income tax assets	*20*	**783,424**	468,256
Right-of-use assets		**52,183**	25,824
Intangible assets		**30,990**	22,175
Property and equipment		**37,045**	51,196
Other assets	*21*	**524,185**	648,147
Total assets		**8,226,620**	14,289,357
Liabilities			
Borrowings	*22*	**4,167,961**	9,236,329
Senior notes	*23*	**691,269**	678,829
Lease liabilities		**53,074**	25,197
Guarantee liabilities	*17*	**678,917**	723,617
Tax payable		**96,676**	124,960
Deferred income tax liabilities	*20*	**69,218**	86,101
Other liabilities	*24*	**320,220**	314,046
Total liabilities		**6,077,335**	11,189,079

	Notes	**As at September 30, 2020** *RMB'000* **(Unaudited)**	As at December 31, 2019 *RMB'000* (Audited)
Equity			
Share capital	*25*	**40,594**	40,913
Share premium	*25*	**5,566,587**	5,581,016
Treasury shares	*26*	**(43,742)**	(51,774)
Reserves		**729,425**	682,913
Accumulated losses		**(4,146,597)**	(3,155,790)
Non-controlling interests		**3,018**	3,000
Total equity		**2,149,285**	3,100,278
Total liabilities and equity		**8,226,620**	14,289,357

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							
				Reserves				
	Share capital	Share premium	Treasury shares	Share option reserves	Translation reserve	Accumulated losses	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 25	*Note 25*	*Note 26*					
(Unaudited)								
Balance at January 1, 2020	**40,913**	**5,581,016**	**(51,774)**	**607,888**	**75,025**	**(3,155,790)**	**3,000**	**3,100,278**
Loss for the period	—	—	—	—	—	(990,807)	18	(990,789)
Exchange difference on translation of financial statements	—	—	—	—	448	—	—	448
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**448**	**(990,807)**	**18**	**(990,341)**
Transactions with owners in their capacity as owners								
Shares repurchased and cancelled	(319)	(14,019)	—	—	—	—	—	(14,338)
Share-based payment	—	—	—	58,392	—	—	—	58,392
Vesting of share awards	—	(410)	12,738	(12,328)	—	—	—	—
Shares repurchased for share award scheme	—	—	(4,706)	—	—	—	—	(4,706)
Total transactions with owners in their capacity as owners	**(319)**	**(14,429)**	**8,032**	**46,064**	**—**	**—**	**—**	**39,348**
Balance at September 30, 2020	**40,594**	**5,566,587**	**(43,742)**	**653,952**	**75,473**	**(4,146,597)**	**3,018**	**2,149,285**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
				Reserves			
	Share capital *RMB'000* *Note 25*	**Share premium** *RMB'000* *Note 25*	**Treasury shares** *RMB'000* *Note 26*	**Share option reserves** *RMB'000*	**Translation reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
(Unaudited)							
Balance at December 31, 2018	**40,938**	**5,581,926**	**–**	**304,945**	**75,510**	**(3,218,592)**	**2,784,727**
Change on initial application of IFRS 16	–	–	–	–	–	(1,988)	(1,988)
Restated balance at January 1, 2019	**40,938**	**5,581,926**	**–**	**304,945**	**75,510**	**(3,220,580)**	**2,782,739**
Profit for the period	–	–	–	–	–	52,184	52,184
Exchange difference on translation of financial statements	–	–	–	–	2,053	–	2,053
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**2,053**	**52,184**	**54,237**
Transactions with owners in their capacity as owners							
Shares repurchased for share award scheme	–	–	(51,774)	–	–	–	(51,774)
Issuance of ordinary shares to employees	19	1,275	–	(360)	–	–	934
Share-based payment	–	–	–	245,180	–	–	245,180
Total transactions with owners in their capacity as owners	**19**	**1,275**	**(51,774)**	**244,820**	**–**	**–**	**194,340**
Balance at September 30, 2019	**40,957**	**5,583,201**	**(51,774)**	**549,765**	**77,563**	**(3,168,396)**	**3,031,316**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Nine months ended September 30, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Operating activities			
Cash generated from operating activities		**5,041,563**	1,569,789
Income tax paid		**(164,131)**	(120,311)
Net cash inflow from operating activities		**4,877,432**	1,449,478
Investing activities			
Proceeds from disposal of investments accounted for using the equity method		**6,575**	—
Payments for property and equipment		**(7,943)**	(16,491)
Payments for intangible assets		**(11,450)**	(4,503)
Payments for financial assets at fair value through profit or loss		—	(637,080)
Proceeds from financial assets at fair value through profit or loss		—	480,480
Net cash outflow from investing activities		**(12,818)**	(177,594)
Financing activities			
(Repayment to)/Proceeds from trust plan holders, net		**(4,698,930)**	273,541
Repayment of borrowings, net		**(52,453)**	(622,010)
Proceeds from issuance of ordinary shares to employees		**—**	934
Proceeds from issuance of senior notes		**—**	660,602
Interest expenses paid		**(616,662)**	(605,816)
Payments for shares repurchased		**(19,044)**	(51,774)
Payments for lease liabilities		**(24,519)**	(27,448)
Net cash outflow from financing activities		**(5,681,608)**	(371,971)
Net (decrease)/increase in cash and cash equivalents		**(816,994)**	899,913
Cash and cash equivalents at the beginning of the period	*14(a)*	**2,169,524**	1,050,112
Effects of exchange rate changes on cash and cash equivalents		**237**	(141)
Cash and cash equivalents at the end of the period	*14(a)*	**1,352,767**	1,949,884

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 General information

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

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

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

The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since June 21, 2018 (the "**Listing**") by way of its initial public offering. As at September 30, 2020, the number of ordinary shares of the Company in issue was 495,524,389, with a par value of HK$0.10 per share.

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

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

2 Basis of preparation

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

3 Significant accounting policies

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

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

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

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

4 Critical accounting estimates and judgements

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

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

5 Financial risk management and financial instruments

5.1 Financial risk factors

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

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

China Banking and Insurance Regulatory Commission, jointly with other regulatory authorities, issued the Circular on Issuing Supplementary Provisions on Supervision of Financing Guarantee Companies (the "**Circular**") on October 24, 2019 to further regulate certain financial guarantee activities. The Circular stated that institutions engaging in the provision of services, such as borrower referrals and credit assessments, to lending institutions shall not provide any financing guarantee services, directly or indirectly (in a disguised manner), without prior approval. The Group has acknowledged the requirements set forth in the Circular and noted the potential non-compliance risk to the current business model for its trust scheme operations going forward. However, taking into consideration of current practice, related regulatory requirements and the environment underlying the trust scheme operations, the Circular may only have a limited impact on the related existing credit enhancement arrangements.

The Group is working on alternative business plans to cope with the implications of the Circular including the restructuring of future credit enhancement arrangements. Based on the Group's stress testing of the potential impact of possible changes to the future business plan, the Group does not consider the Circular will have any significant implications for the consolidated financial statements and the Group operating as a going concern. The Group will pay close attention to developments related to the new regulatory requirements related to the Circular and will continue to monitor the impact to its operations and financial position.

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

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

Measurement of ECL

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

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

Key economic variable	**Scenario**	**Nine months ended September 30, 2020**	**Year ended December 31, 2019**
CPI	Base	1.77%-3.25%	3.09%-3.44%
	Upside	2.51%-3.98%	3.62%-4.07%
	Downside	1.04%-2.51%	2.11%-2.57%
GDP	Base	1.58%-3.04%	5.77%-6.14%
	Upside	2.31%-3.76%	5.94%-6.44%
	Downside	0.85%-2.31%	5.55%-6.04%

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

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

Sensitivity analysis

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

		GDP		
		-0.5 σ	**No change**	**+0.5 σ**
		RMB'000	*RMB'000*	*RMB'000*
CPI	-0.5 σ	131,577	61,622	—
	No change	61,622	—	(43,231)
	+0.5 σ	—	(43,231)	(70,620)

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

For CPI and GDP, assuming a 10% increase in the weight of the upside scenario and a 10% reduction in the weight of the base scenario, the Group's ECL as at September 30, 2020 is reduced by RMB4.39 million; assuming a 10% increase in the weight of the downside scenario and a 10% reduction in the weight of the base scenario, the Group's ECL is increased by RMB10.80 million.

5.2 Fair value measurement of financial instruments

5.2.1 Fair value hierarchy

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

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

		As at September 30, 2020			
	Valuation techniques and key input	**Level 1**	**Level 2**	**Level 3**	**Total**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)					
Assets					
Loans to customers at fair value through profit or loss	Discounted cash flow method (i)	**—**	**—**	**4,168,741**	**4,168,741**
Financial assets at fair value through profit or loss					
- Unlisted equity investment	The latest round of financing	**—**	**—**	**20,000**	**20,000**
- Money market funds	Quoted market price	**284**	**—**	**—**	**284**
		284	**—**	**4,188,741**	**4,189,025**

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

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

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

	Nine months ended September 30, 2020 *RMB'000* **(Unaudited)**	2019 *RMB'000* (Unaudited)
Opening balance	**9,457,673**	8,863,246
Additions	**9,533,863**	11,744,439
Disposals	**(12,751,081)**	(11,226,109)
Gains or losses recognized in profit or loss	**(2,051,714)**	(1,456,970)
Ending balance	**4,188,741**	7,924,606

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

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

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

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

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

5.2.2 Fair value measurements using significant unobservable inputs

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

As at September 30, 2020, the level 3 instruments were mainly loans to customers at fair value through profit or loss. As the loans to customers are not traded in an active market, its fair value has been determined using discounted cash flows. Major assumptions used in the valuation include historical performance of loan to customers and estimate of discount rate. The discount rate used to determine the present value was a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the assets as at each reporting date. The management estimated the risk-free interest rate based on the yield of China Government Bonds with a maturity life equal to the period from the respective reporting date to expected cash flow date.

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

Expected changes in (loss)/profit before income tax	**Nine months ended September 30,**	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
+ 100 basis points	**(9,941)**	(25,093)
- 100 basis points	**10,072**	26,829

5.2.3 Fair values of other financial instruments (unrecognised)

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

6 Net interest type income

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest type income				
Loans to customers at fair value through profit or loss	**406,007**	665,493	**1,716,593**	1,818,126
Less: interest expenses				
Payable to trust plan holders	**(111,181)**	(179,489)	**(479,199)**	(521,496)
Senior notes	**(22,595)**	(21,828)	**(67,821)**	(21,828)
Borrowings from corporations	**(17,341)**	(16,899)	**(49,445)**	(61,203)
Borrowings from individuals	**—**	(1,110)	**—**	(7,749)
Secured borrowings	**—**	—	**—**	(13)
Others	**(982)**	(451)	**(2,118)**	(3,427)
	(152,099)	(219,777)	**(598,583)**	(615,716)
Net interest type income	**253,908**	445,716	**1,118,010**	1,202,410

7 Loan facilitation service fees

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Upfront loan facilitation service fees	**225,599**	494,227	**385,582**	1,029,223
Post loan facilitation service fees	**23,737**	46,467	**101,927**	84,336
	249,336	540,694	**487,509**	1,113,559

Note: The unsatisfied performance obligations as at September 30, 2020 is RMB39.24 million. Management expects that 98.87% of the transaction price allocated to the unsatisfied contracts as at September 30, 2020 will be recognized as revenue within the next 12 months (As at September 30, 2019: the unsatisfied performance obligations is RMB120.62 million, and management expects that 97.44% of the transaction price allocated to the unsatisfied contracts will be recognized as revenue within the next 12 months).

8 Other income

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Membership fees and referral fees (i)	**381**	171,625	**301,428**	672,150
Penalty and service charges	**58,776**	99,197	**242,195**	224,291
Government grants	**—**	—	**34,975**	—
Technology and professional service fees	**—**	8,037	**—**	24,249
Gains/(losses) from guarantee	**162,985**	(235,220)	**(258,541)**	(351,412)
Others	**1,216**	(347)	**4,852**	4,674
	223,358	43,292	**324,909**	573,952

(i) Membership fees for the nine months ended September 30, 2020 are RMB0.84 million (for the nine months ended September 30, 2019: RMB62.45 million). Referral fees for the nine months ended September 30, 2020 are RMB300.59 million (for the nine months ended September 30, 2019: RMB609.70 million).

9 Expenses by nature

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Loan origination and servicing expenses	**(202,486)**	(197,588)	**(519,037)**	(450,560)
Employee benefit expenses	**(53,870)**	(116,664)	**(186,636)**	(408,243)
Professional service fees	**(26,088)**	(35,535)	**(59,562)**	(52,927)
Depreciation and amortization	**(14,448)**	(15,279)	**(47,735)**	(48,933)
Office expenses	**(7,853)**	(14,860)	**(28,616)**	(33,985)
Tax and surcharge	**(5,278)**	(6,333)	**(20,628)**	(15,214)
Branding expenses	**(1,562)**	(29)	**(4,335)**	(5,009)
Others	**(6,668)**	(818)	**(20,925)**	(8,756)
Total origination and servicing expenses, sales and marketing expenses, general and administrative expenses, and research and development expenses	**(318,253)**	(387,106)	**(887,474)**	(1,023,627)

10 Credit impairment losses

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Cash and cash equivalents	**(72)**	(13)	**(138)**	(13)
Restricted cash	**7**	(7)	**(95)**	(40)
Contract assets	**(16,282)**	(71,046)	**(70,135)**	(135,438)
Guarantee receivables	**(36,976)**	(58,566)	**(145,555)**	(120,930)
Other assets	**(548)**	595	**(2,956)**	3,223
	(53,871)	(129,037)	**(218,879)**	(253,198)

11 Other gains/(losses), net

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Bank interest income	**3,756**	3,188	**14,250**	8,742
Exchange gains/(losses)	**23,062**	(18,426)	**12,846**	(18,514)
Gain from disposal of investments accounted for using the equity method	**—**	—	**468**	—
Gain from financial assets at fair value through profit or loss	**2**	1,016	**4**	1,501
Interest expense on senior notes	**—**	89	**—**	(2,283)
Interest expense on lease liabilities	**(871)**	(2,082)	**(2,455)**	(3,718)
Bank charges	**(1,187)**	(93)	**(8,904)**	(4,104)
	24,762	(16,308)	**16,209**	(18,376)

12 Income tax credit/(expense)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current income tax	**(31,745)**	(101,467)	**(100,279)**	(175,072)
Deferred income tax	**(5,553)**	66,645	**332,051**	88,069
	(37,298)	(34,822)	**231,772**	(87,003)

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(Loss)/Profit before income tax:	**127,737**	80,832	**(1,222,561)**	139,187
Tax calculated at PRC statutory income tax rate of 25%	**(31,935)**	(20,208)	**305,640**	(34,797)
Tax effects of:				
— Differential income tax rates applicable to subsidiaries (i)	**1,391**	(3,051)	**(57,212)**	9,501
— Expenses not deductible for income tax purpose	**(6,760)**	(13,732)	**(16,656)**	(61,707)
Share-based compensation	**(4,803)**	(14,733)	**(14,598)**	(61,385)
Others	**(1,957)**	1,001	**(2,058)**	(322)
— Others	**6**	2,169	**—**	—
Income tax credit/(expense)	**(37,298)**	(34,822)	**231,772**	(87,003)

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

British Virgin Islands

Enterprise incorporated in the British Virgin Islands (BVI) is not subject to tax on income or capital gains.

Cayman Islands

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

China

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

Hong Kong

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

Withholding Tax on Undistributed Profits

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

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

13 (Loss)/earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(Loss)/earnings attributable to owners of the Company	**90,433**	46,010	**(990,807)**	52,184
Weighted average number of ordinary shares for calculation of the basic (loss)/earnings per share *('000)*	**497,218**	493,072	**499,539**	495,661
Weighted average number of ordinary shares for calculation of the diluted (loss)/earnings per share *('000)*	**502,487**	503,967	**499,539**	503,850
Basic (loss)/earnings per share *(RMB yuan)*	**0.18**	0.09	**(1.98)**	0.11
Diluted (loss)/earnings per share *(RMB yuan)*	**0.18**	0.09	**(1.98)**	0.10

(a) Basic (loss)/earnings per share is calculated by dividing the (loss)/profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares of the Company outstanding during the period.

(b) For the nine months ended September 30, 2019 and 2020 and three months ended September 30, 2019 and 2020, respectively, the potential ordinary shares of the Company were share options and share awards granted by the Company. As the Group incurred loss for the nine months ended September 30, 2020, the potential ordinary shares of the Company were not included in the calculation of diluted loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the nine months ended September 30, 2020 was the same as basic loss per share.

For the nine months ended September 30, 2019 and three months ended September 30, 2019 and 2020, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and share awards granted by the Company (collectively forming the denominator for computing diluted earnings per share). No adjustment is made to earnings (numerator).

14 Cash and bank balances

(a) Cash and cash equivalents

	As at September 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cash at bank	**1,139,363**	1,130,115
Cash held through platform (i)	**213,404**	1,039,409
Total cash and cash equivalents	**1,352,767**	2,169,524
Less: ECL allowance	**(140)**	(2)
	1,352,627	2,169,522

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

(b) Restricted cash

	As at September 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Deposits	**238,461**	264,637
Less: ECL allowance	**(148)**	(53)
	238,313	264,584

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

15 Loans to customers at fair value through profit or loss

The composition of loans is as follows:

	As at September 30, 2020 *RMB'000* **(Unaudited)**	As at December 31, 2019 *RMB'000* (Audited)
Unsecured	**3,844,197**	8,822,968
Secured	**324,544**	634,705
	4,168,741	9,457,673

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

	As at September 30, 2020 *RMB'000* **(Unaudited)**	As at December 31, 2019 *RMB'000* (Audited)
Within 1 year (including 1 year)	**3,780,783**	8,028,905
1 to 2 years (including 2 years)	**31,792**	260,124
2 to 5 years (including 5 years)	**356,166**	1,168,644
	4,168,741	9,457,673

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

	As at September 30, 2020 *RMB'000* **(Unaudited)**	As at December 31, 2019 *RMB'000* (Audited)
Overdue	**277,366**	506,965
Within 1 year (including 1 year)	**3,782,192**	8,256,618
1 to 2 years (including 2 years)	**7,375**	363,427
2 to 5 years (including 5 years)	**101,808**	330,663
	4,168,741	9,457,673

16 Contract assets

	As at September 30, 2020 *RMB'000* (Unaudited)	As at December 31, 2019 *RMB'000* (Audited)
Contract assets	**348,066**	655,815
Less: ECL allowance	**(51,824)**	(132,793)
	296,242	523,022

Movement of gross carrying amount

Contract assets	Nine months ended September 30, 2020			
	Stage 1 *RMB'000* (Unaudited)	**Stage 2** *RMB'000* (Unaudited)	**Stage 3** *RMB'000* (Unaudited)	**Total** *RMB'000* (Unaudited)
Opening balance at January 1, 2020	571,352	43,084	41,379	655,815
New financial assets originated	273,551	—	—	273,551
Transfer for the period:				
From stage 1 to stage 2	(5,592)	5,592	—	—
From stage 1 to stage 3	(88,493)	—	88,493	—
From stage 2 to stage 1	70	(70)	—	—
From stage 2 to stage 3	—	(41,765)	41,765	—
From stage 3 to stage 2	—	1	(1)	—
From stage 3 to stage 1	15	—	(15)	—
Asset derecognised (including final repayment)	(430,218)	(1,246)	(1,207)	(432,671)
Asset written off	—	—	(148,629)	(148,629)
Ending balance at September 30, 2020	320,685	5,596	21,785	348,066

Contract assets	Nine months ended September 30, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Opening balance at January 1, 2019	162,776	5,528	5,735	174,039
New financial assets originated	821,861	—	—	821,861
Transfer for the period:				
From stage 1 to stage 2	(26,664)	26,664	—	—
From stage 1 to stage 3	(29,033)	—	29,033	—
From stage 2 to stage 1	8	(8)	—	—
From stage 2 to stage 3	—	(4,864)	4,864	—
From stage 3 to stage 1	4	—	(4)	—
Asset derecognised (including final repayment)	(108,786)	(517)	(434)	(109,737)
Asset written off	—	—	(15,258)	(15,258)
Ending balance at September 30, 2019	820,166	26,803	23,936	870,905

Movement of ECL allowance

ECL allowance	Nine months ended September 30, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Opening balance at January 1, 2020	(53,842)	(39,330)	(39,621)	(132,793)
New financial assets originated	(23,461)	—	—	(23,461)
Transfer for the period:				
From stage 1 to stage 2	480	(5,129)	—	(4,649)
From stage 1 to stage 3	7,589	—	(85,041)	(77,452)
From stage 2 to stage 1	(6)	64	—	58
From stage 2 to stage 3	—	38,308	(40,136)	(1,828)
From stage 3 to stage 2	—	(1)	1	—
From stage 3 to stage 1	(1)	—	14	13
Asset derecognised (including final repayment)	36,897	1,143	1,160	39,200
Changes to risk parameters (model inputs)	6,688	(212)	(6,017)	459
Asset written off	—	—	148,629	148,629
Ending balance at September 30, 2020	(25,656)	(5,157)	(21,011)	(51,824)

ECL allowance	Nine months ended September 30, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Opening balance at January 1, 2019	(9,364)	(5,013)	(5,519)	(19,896)
New financial assets originated	(67,242)	—	—	(67,242)
Transfer for the period:				
From stage 1 to stage 2	2,182	(24,205)	—	(22,023)
From stage 1 to stage 3	2,375	—	(28,368)	(25,993)
From stage 2 to stage 1	(1)	7	—	6
From stage 2 to stage 3	—	4,415	(4,753)	(338)
From stage 3 to stage 1	—	—	4	4
Asset derecognised (including final repayment)	8,901	469	424	9,794
Changes to risk parameters (model inputs)	(28,198)	(33)	(787)	(29,018)
Asset written off	—	—	15,258	15,258
Ending balance at September 30, 2019	(91,347)	(24,360)	(23,741)	(139,448)

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

ECL allowance	Nine months ended September 30, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
ECL charged for the period	28,186	34,173	(132,494)	(70,135)

ECL allowance	Nine months ended September 30, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
ECL charged for the period	(81,983)	(19,347)	(34,108)	(135,438)

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

17 Guarantee receivables and guarantee liabilities

	As at September 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Guarantee receivables	**830,211**	760,973
Less: ECL allowance	**(128,191)**	(139,725)
	702,020	621,248

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

	Nine months ended September 30, 2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Guarantee receivables		
Opening balance	**621,248**	206,146
Addition arising from new business	**1,236,900**	1,024,675
ECL	**(145,555)**	(120,930)
Reversal due to early repayment	**(101,775)**	(52,013)
Payment received from borrowers	**(908,798)**	(483,160)
Ending balance	**702,020**	574,718

Movement of gross carrying amount

Guarantee receivables	Nine months ended September 30, 2020 Stage 1	Stage 2	Stage 3	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Opening balance at January 1, 2020	682,268	40,223	38,482	760,973
New financial assets originated	758,789	—	—	758,789
Transfer for the period:				
From stage 1 to stage 2	(17,097)	17,097	—	—
From stage 1 to stage 3	(117,599)	—	117,599	—
From stage 2 to stage 1	11	(11)	—	—
From stage 2 to stage 3	—	(38,642)	38,642	—
Asset derecognised (including final repayment)	(533,827)	(1,593)	(2,406)	(537,826)
Asset written off	—	—	(151,725)	(151,725)
Ending balance at September 30, 2020	772,545	17,074	40,592	830,211

Guarantee receivables	Nine months ended September 30, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Opening balance at January 1, 2019	216,453	9,077	10,404	235,934
New financial assets originated	674,922	—	—	674,922
Transfer for the period:				
From stage 1 to stage 2	(23,044)	23,044	—	—
From stage 1 to stage 3	(37,369)	—	37,369	—
From stage 2 to stage 1	3	(3)	—	—
From stage 2 to stage 3	—	(8,394)	8,394	—
Asset derecognised (including final repayment)	(185,804)	(426)	(252)	(186,482)
Asset written off	—	—	(26,086)	(26,086)
Ending balance at September 30, 2019	645,161	23,298	29,829	698,288

Movement of ECL allowance

ECL allowance	Nine months ended September 30, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Opening balance at January 1, 2020	(66,215)	(36,665)	(36,845)	(139,725)
New financial assets originated	(71,518)	—	—	(71,518)
Transfer for the period:				
From stage 1 to stage 2	1,611	(15,652)	—	(14,041)
From stage 1 to stage 3	11,084	—	(112,642)	(101,558)
From stage 2 to stage 1	(1)	10	—	9
From stage 2 to stage 3	—	35,377	(37,013)	(1,636)
Asset derecognised (including final repayment)	50,314	1,458	2,305	54,077
Changes to risk parameters (model inputs)	1,130	(227)	(6,427)	(5,524)
Asset written off	—	—	151,725	151,725
Ending balance at September 30, 2020	(73,595)	(15,699)	(38,897)	(128,191)

ECL allowance	Nine months ended September 30, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Opening balance at January 1, 2019	(11,419)	(8,302)	(10,067)	(29,788)
New financial assets originated	(55,713)	—	—	(55,713)
Transfer for the period:				
From stage 1 to stage 2	1,902	(21,027)	—	(19,125)
From stage 1 to stage 3	3,085	—	(35,959)	(32,874)
From stage 2 to stage 1	—	3	—	3
From stage 2 to stage 3	—	7,659	(8,077)	(418)
Asset derecognised (including final repayment)	15,338	389	242	15,969
Changes to risk parameters (model inputs)	(27,012)	70	(768)	(27,710)
Asset written off	—	—	26,086	26,086
Ending balance at September 30, 2019	(73,819)	(21,208)	(28,543)	(123,570)

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

ECL allowance	Nine months ended September 30, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
ECL charged for the period	(7,380)	20,966	(159,141)	(145,555)

ECL allowance	Nine months ended September 30, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
ECL charged for the period	(62,400)	(12,906)	(45,624)	(120,930)

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

	Nine months ended September 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Guarantee liabilities		
Opening balance	**723,617**	204,496
Addition arising from new business	**1,236,900**	1,024,675
Release of the margin	**(69,946)**	(67,041)
ECL	**328,487**	418,453
Reversal due to early repayment	**(101,775)**	(52,013)
Payouts during the period, net (i)	**(1,438,366)**	(660,828)
Ending balance	**678,917**	867,742

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

18 Financial assets at fair value through profit or loss

	As at September 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Unlisted equity investment (i)	**20,000**	—
Money market fund	**284**	280
	20,284	280

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

19 Investments accounted for using the equity method

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

	Nine months ended September 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Opening balance	**37,430**	27,684
Share of net (loss)/profit	**(11,131)**	1,437
Disposal	**(6,107)**	—
Translation difference	**374**	165
Ending balance	**20,566**	29,286

20 Deferred income tax

	As at September 30, 2020		As at December 31, 2019	
	Deductible/ (taxable) temporary differences	**Deferred income tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Deferred income tax liabilities				
Unrealized gains	**(200,653)**	**(6,493)**	(1,439,867)	(299,103)
Others	**(2,756)**	**(689)**	(2,756)	(689)
	(203,409)	**(7,182)**	(1,442,623)	(299,792)
Deferred income tax assets				
ECL allowance	**684,908**	**171,227**	475,308	118,827
Fair value change of loan to customers	**2,913,378**	**550,161**	2,285,951	563,120
	3,598,286	**721,388**	2,761,259	681,947
Net deferred income tax assets	**3,394,877**	**714,206**	1,318,636	382,155

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

	As at September 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Deferred income tax assets	**783,424**	468,256
Deferred income tax liabilities	**(69,218)**	(86,101)
Net deferred income tax assets	**714,206**	382,155

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

	ECL allowance	**Fair value change**	**Unrealized gains**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
As at January 1, 2020	118,827	563,120	(299,103)	(689)	382,155
Recognized in the profit or loss	52,400	(12,959)	292,610	—	332,051
As at September 30, 2020	171,227	550,161	(6,493)	(689)	714,206
As at January 1, 2019	41,459	578,094	(289,600)	5,430	335,383
Adjustment on adoption of IFRS 16	—	—	—	476	476
Restated balance as at January 1, 2019	41,459	578,094	(289,600)	5,906	335,859
Recognized in the profit or loss	64,430	(85,594)	115,352	(6,595)	87,593
As at September 30, 2019	105,889	492,500	(174,248)	(689)	423,452

Deferred income tax assets are recognized for tax losses carried forwards and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable.

21 Other assets

	As at September 30, 2020 *RMB'000* **(Unaudited)**	As at December 31, 2019 *RMB'000* (Audited)
Security deposits in financial institutions	**400,593**	333,523
Prepaid expense	**43,409**	48,737
Due from business partners	**38,335**	184,177
Receivable from third party payment companies	**34,810**	54,208
Rental deposits	**6,541**	8,061
Other receivables	**5,038**	21,026
	528,726	649,732
Less: ECL allowance	**(4,541)**	(1,585)
	524,185	648,147

22 Borrowings

	As at September 30, 2020 *RMB'000* **(Unaudited)**	As at December 31, 2019 *RMB'000* (Audited)
Denominated in RMB:		
Payable to trust plan holders (i)	**3,621,900**	8,637,946
Borrowings from corporations	**546,061**	598,383
	4,167,961	9,236,329

(i) The trust plan holders have priority to repayments from the loans to customers originated by those trust plans. The fair value of those loans to customers was RMB4,022.82 million as at September 30, 2020 (December 31, 2019: RMB9,141.07 million).

Effective interest rates of borrowings

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

Contractual maturities of borrowings

	As at September 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 year	**1,230,169**	3,721,399
Between 1 and 2 years	**2,601,492**	4,903,920
Between 2 and 5 years	**336,300**	611,010
	4,167,961	9,236,329

Borrowings by repayment schedule

	As at September 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 year	**3,686,341**	8,382,699
Between 1 and 2 years	**481,620**	626,210
Between 2 and 5 years	**—**	227,420
	4,167,961	9,236,329

23 Senior notes

VCREDIT N2106 (Code: 5064)	**Nine months ended September 30,**	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Opening balance	**678,829**	—
Issuance	**—**	660,602
Accrued interest	**57,577**	21,012
Discount amortization	**10,244**	3,450
Interest expense paid	**(38,915)**	—
Exchange difference	**(16,466)**	19,282
Ending balance	**691,269**	704,346

24 Other liabilities

	As at September 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Accrued service fees	**136,736**	157,851
Due to financial institutions	**114,294**	102,800
Deposits collected from borrowers	**43,216**	32,849
Employee benefit liability	**19,479**	13,932
Contract liabilities	**—**	849
Others	**6,495**	5,765
	320,220	314,046

25 Share capital and share premium

	Number of ordinary shares *Shares'000*	Share capital *RMB'000*	Share premium *RMB'000*
(Unaudited)			
At January 1, 2019	499,487	40,938	5,581,926
Issuance of ordinary shares to employees	210	19	1,275
At September 30, 2019	499,697	40,957	5,583,201
At January 1, 2020	499,203	40,913	5,581,016
Shares repurchased and cancelled	(3,679)	(319)	(14,019)
Vesting of share awards	—	—	(410)
At September 30, 2020	495,524	40,594	5,566,587

26 Treasury shares

	As at September 30, 2020		As at December 31, 2019	
	Shares'000	***RMB'000***	*Shares'000*	*RMB'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Treasury shares held under share award scheme	**(6,222)**	**(43,742)**	(6,530)	(51,774)

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

Movements in treasury shares during the period are as follows:

	Nine months ended September 30,			
	2020		2019	
	Shares'000	***RMB'000***	*Shares'000*	*RMB'000*
	(Unaudited)	**(Unaudited)**	(Unaudited)	(Unaudited)
Opening balance	**(6,530)**	**(51,774)**	—	—
Vesting of share awards	**1,606**	**12,738**	—	—
Acquisition of shares by the VCREDIT No. 1 Share Award Scheme Trusts	**(1,298)**	**(4,706)**	(6,530)	(51,774)
Ending balance	**(6,222)**	**(43,742)**	(6,530)	(51,774)

27 Share-based payments

Share options

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

	Exercise Price in US$ per Share Option			Number of Share Options ('000)		
	2016 ESOP	**2017 ESOP I**	**2017 ESOP II**	**2016 ESOP**	**2017 ESOP I**	**2017 ESOP II**
(Unaudited)						
Outstanding balance as at January 1, 2020	0.8735	1.6123	1.6123	16,865	46,517	26,115
Lapsed	0.8735	1.6123	—	(1,752)	(5,310)	—
Outstanding balance as at September 30, 2020	0.8735	1.6123	1.6123	15,113	41,207	26,115

	Exercise Price in US$ per Share Option			Number of Share Options ('000)		
	2016 ESOP	**2017 ESOP I**	**2017 ESOP II**	**2016 ESOP**	**2017 ESOP I**	**2017 ESOP II**
(Unaudited)						
Outstanding balance as at January 1, 2019	0.8735	1.6123	1.6123	20,800	46,517	26,115
Exercised	0.8735	—	—	(210)	—	—
Outstanding balance as at September 30, 2019	0.8735	1.6123	1.6123	20,590	46,517	26,115

Share award schemes

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

	Number of share awards *('000)*
(Unaudited)	
Outstanding balance as at January 1, 2020	6,530
Granted	850
Vested	(1,606)
Forfeited	(444)
Outstanding balance as at September 30, 2020	5,330

	Number of share awards *('000)*
(Unaudited)	
Outstanding balance as at January 1, 2019	—
Granted	6,530
Outstanding balance as at September 30, 2019	6,530

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

28 Contingencies

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

29 Consolidated structured entities

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

As at September 30, 2020, total assets under management of the trust plans consolidated by the Group amounted to RMB4.41 billion (December 31, 2019: RMB9.85 billion).

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

30 Dividends

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

31 Subsequent events

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

32 Comparative figures

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

Report on Review of Interim Financial Information

To the Board of Directors of VCREDIT Holdings Limited
(registered by way of continuation in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 31 to 65, which comprises the interim condensed consolidated statement of financial position of VCREDIT Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at June 30, 2020 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 18, 2020

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2020

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

For the six months ended June 30, 2020

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

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

Interim Condensed Consolidated Statement of Financial Position

As at June 30, 2020

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

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

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

Ma Ting Hung
Director

Liu Sai Wang Stephen
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

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

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Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

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

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

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

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

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

1 GENERAL INFORMATION

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

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

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

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

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

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

2 BASIS OF PREPARATION

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.1 Financial risk factors (continued)

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

Measurement of ECL

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

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

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

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.1 Financial risk factors (continued)

Sensitivity analysis

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

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

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

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

5.2 Fair value measurement of financial instruments

5.2.1 Fair value hierarchy

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

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.2 Fair value measurement of financial instruments (continued)

5.2.1 *Fair value hierarchy* (continued)

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

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

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

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

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.2 Fair value measurement of financial instruments (continued)

5.2.1 *Fair value hierarchy* (continued)

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

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

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

5.2.2 *Fair value measurements using significant unobservable inputs*

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.2 Fair value measurement of financial instruments (continued)

5.2.2 *Fair value measurements using significant unobservable inputs* (continued)

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

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

5.2.3 *Fair values of other financial instruments (unrecognised)*

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

6 NET INTEREST TYPE INCOME

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

7 LOAN FACILITATION SERVICE FEES

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

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

8 OTHER INCOME

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

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

9 EXPENSES BY NATURE

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

10 CREDIT IMPAIRMENT LOSSES

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

11 OTHER LOSSES, NET

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

(i) Finance cost, net

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

12 INCOME TAX EXPENSE

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

12 INCOME TAX EXPENSE (continued)

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

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

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

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

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

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

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

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

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

13 (LOSS)/EARNINGS PER SHARE

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

(a) Basic (loss)/earnings per share is calculated by dividing the (loss)/profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares of the Company outstanding during the period.

(b) For the six months ended June 30, 2019 and 2020, respectively, the potential ordinary shares of the Company were share options and share awards granted by the Company. As the Group incurred loss for the six months ended June 30, 2020, the potential ordinary shares of the Company were not included in the calculation of diluted loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the six months ended June 30, 2020 was the same as basic loss per share.

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

14 CASH AND BANK BALANCES

(a) Cash and cash equivalents

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

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

(b) Restricted cash

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

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

15 LOANS TO CUSTOMERS AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of loans is as follows:

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

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

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

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

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

16 CONTRACT ASSETS

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

Movement of gross carrying amount

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

16 CONTRACT ASSETS (continued)

Movement of gross carrying amount (continued)

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

Movement of ECL allowance

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

16 CONTRACT ASSETS (continued)

Movement of ECL allowance (continued)

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

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

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

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

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

17 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES

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

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

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

Movement of gross carrying amount

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

17 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (continued)

Movement of gross carrying amount (continued)

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

Movement of ECL allowance

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

17 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (continued)

Movement of ECL allowance (continued)

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

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

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

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

17 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (continued)

Movement of ECL allowance (continued)

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

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

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

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

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

20 DEFERRED INCOME TAX

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

20 DEFERRED INCOME TAX (continued)

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

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

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

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

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

21 OTHER ASSETS

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

22 BORROWINGS

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

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

Effective interest rates of borrowings

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

22 BORROWINGS (continued)

Contractual maturities of borrowings

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

Borrowings by repayment schedule

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

23 SENIOR NOTES

VCREDIT N2106 (Code: 5064)	Six months ended June 30, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Opening balance	**678,829**	—
Issuance	**—**	660,602
Accrued interest	**38,464**	2,037
Discount amortization	**6,762**	335
Interest expense paid	**(38,915)**	—
Exchange difference	**10,335**	(496)
Ending balance	**695,475**	662,478

24 OTHER LIABILITIES

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

25 SHARE CAPITAL AND SHARE PREMIUM

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

26 TREASURY SHARES

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

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

26 TREASURY SHARES (continued)

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

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

27 SHARE-BASED PAYMENTS

Share options

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

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

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

27 SHARE-BASED PAYMENTS (continued)

Share award schemes

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

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

	Number of share awards ('000)
(Unaudited)	
Outstanding balance as at January 1, 2019	—
Granted	6,530
Outstanding balance as at June 30, 2019	6,530

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

28 CONTINGENCIES

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

29 CONSOLIDATED STRUCTURED ENTITIES

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

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

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

30 DIVIDENDS

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

31 SUBSEQUENT EVENTS

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

32 COMPARATIVE FIGURES

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

Independent Auditor's Report

To the Shareholders of VCREDIT Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of VCREDIT Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 56 to 146, which comprise:

- the consolidated statement of comprehensive income for the year ended December 31, 2019;
- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Professional Accountants ("**IESBA Code**"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Measurement of fair value of loans to customers
- Measurement of expected credit losses
- Consolidation assessment of, and disclosures about, structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of fair value of loans to customers Please refer to the following notes to the consolidated financial statements: Notes 2.8, 3.2 and 17 As at December 31, 2019, the Group's fair value of loans to customers amounted to RMB9,458 million, and fair value loss of RMB2,058 million was recognized in the Group's consolidated statement of comprehensive income for the year ended December 31, 2019. The preparation of the consolidated financial statements in conformity with IFRS 9 requires the Group to make considerable judgements, assumptions, and interpretations of the standard and requires the use of discounted cash flow in the development of fair value models to estimate loans to customers. The method to determine discount rate for each loan is a significant management judgment. The fair value model of loans to customers under IFRS 9 is a highly complex process and involved considerable assumptions and interpretations, and accordingly, we included this as a key audit matter.	Our procedures included: 1. We understood the relevant internal controls over the selection and approval of the accounting policies and fair value model methodologies; 2. We reviewed the modelling methodology for measurement of fair value of loans to customers, and assessed the reasonableness of the key parameters calculations, judgements and assumptions in relation to the models; 3. We reviewed the encoding for model measurement as a whole, tested whether or not the measurement models reflect the modelling methodology documented by the management, and examined the major data inputs to assess their accuracy and completeness; 4. We assessed whether the disclosures in the consolidated financial statements, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Group's exposure to valuation risk with reference to the requirements of the prevailing accounting standards. Based on the procedures we have performed, in the context of the inherent uncertainties associated with measurement of fair value of loans to customers, the models, the parameters and the key assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses Please refer to the following notes to the consolidated financial statements: Notes 2.8, 3.1, 12, 18 and 19 For the year ended December 31, 2019, the Group's expected credit losses ("**ECL**") amounted to RMB309 million as disclosed in the Group's consolidated statement of comprehensive income. The implementation of IFRS 9 requires the Group to make considerable judgements, assumptions, and interpretations of the standard and requires the use of numerous parameters and data inputs in the development of complex models to estimate the impairment losses on its contract assets, guarantee receivables and guarantee liabilities using the expected credit losses concept. Significant management judgments and assumptions primarily included the following: (1) Choosing appropriate models and assumptions and determination of relevant key measurement parameters; (2) Criteria for determining whether or not there was a significant increase in credit risk and definition of default; (3) Economic variables for forward-looking measurement, and the application of economic scenarios and relative weightings; (4) The estimated future cash flows for loans to customers in stage 3. The ECL model under IFRS 9 is a highly complex process and involved significant management judgments and interpretations, and accordingly, we included this as a key audit matter.	Our procedures included: 1. We understood the relevant internal controls over the selection and approval of the accounting policies and ECL model methodologies; 2. We reviewed the modelling methodology for measurement of expected credit losses, and assessed the reasonableness of the key parameters calculations, judgements and assumptions in relation to the models. We examined the calculation for model measurement on selected samples and tested whether or not the measurement model reflects the modelling methodology documented by the management; 3. We reviewed the entry of key data inputs for the ECL models on selected samples, including historical data and data on the measurement date, to assess their completeness and accuracy; 4. We selected samples, taken into consideration of the overdue status of the borrowers, to assess the appropriateness of the management's determination of significant increase in credit risk of contract assets, guarantee receivables and guarantee liabilities; 5. We reviewed retrospective testing of the economic indicator forecasts used in the measurement of expected credit losses, and reviewed sensitivity testing of forecasting of forward-looking economic indicators, economic scenarios and weightings. Based on the procedures we have performed, in the context of the inherent uncertainties associated with a measurement of expected credit losses for contract assets, guarantee receivables and guarantee liabilities, the models, the parameters and the key assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation assessment of, and disclosures about, structured entities Please refer to the following notes to the consolidated financial statements: Notes 2.3.1(b) and 3.7 As at December 31, 2019, structured entities primarily included trust plans. The Group's consolidated structured entities amounted to RMB9.85 billion as disclosed in Note 2.3.1(b). The amount of structured entities was significant and the assessment on the scope of consolidation involved management's judgement. Management had determined whether the structured entities should be consolidated based on their assessment on each of the three elements of control: 1-the Group's power to direct relevant activities of structured entities; 2-its exposure to variable returns from its involvement with; and 3-its ability to use its power to affect the amount of its returns from these structured entities in accordance with International Financial Reporting Standard No.10-Consolidated Financial Statements ("**IFRS 10**"). The significant judgement exercised by management in assessing whether the Group had control of structured entities and the amount of such structured entities resulted in this matter being identified as a key audit matter.	Our audit procedures included: 1. We obtained understanding of the related internal controls that management adopted on the consolidation assessment of structured entities; 2. We analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities; 3. We inspected contract terms related to the Group's variable returns from these selected structured entities, including service fee, guarantee premium and expected residual returns, and agreed this information to the corresponding inputs used in management's assessment; 4. We assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its services provided to the structured entities, and compared our assessment results with management's assessment outcomes; 5. We evaluated and checked the appropriateness of disclosures in the consolidated financial statements relating to structured entities. Based on the procedures we have performed, management's consolidation assessment in relation to structured entities was reasonable and the disclosures were appropriate.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mang Kong Fung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March, 2020

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2019

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Continuing operations			
Interest type income	5	**2,642,081**	2,930,339
Less: interest expenses	5	**(862,174)**	(974,770)
Net interest type income	5	**1,779,907**	1,955,569
Loan facilitation service fees	6	**1,247,377**	269,832
Other income	7	**837,073**	511,182
Total income		**3,864,357**	2,736,583
Origination and servicing expenses	8	**(709,509)**	(865,581)
Sales and marketing expenses	8	**(32,229)**	(26,117)
General and administrative expenses	8	**(505,424)**	(502,369)
Research and development expenses	8	**(92,392)**	(74,058)
Credit impairment losses	12	**(309,101)**	(54,348)
Fair value change of loans to customers		**(2,058,482)**	(1,130,058)
Other (losses)/gains, net	13	**(2,851)**	17,583
Operating profit		**154,369**	101,635
Share of net profit/(loss) of associates accounted for using the equity method	21	**9,962**	(2,900)
Fair value loss of convertible redeemable preferred shares		**—**	(1,047,156)
Profit/(Loss) before income tax		**164,331**	(948,421)
Income tax expense	14	**(99,541)**	(78,532)
Profit/(Loss) for the year attributable to:			
Owners of the Company		**64,790**	(1,026,953)
Non-controlling interests		**—**	—
		64,790	(1,026,953)

For the year ended December 31, 2019

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss			
Exchange difference on translation of financial statements		**(485)**	44,105
Items that will not be reclassified to profit or loss			
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss		**—**	(14,109)
Total comprehensive income/(loss) for the year, net of tax		**64,305**	(996,957)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**64,305**	(996,957)
Non-controlling interests		**—**	—
		64,305	(996,957)
Basic earnings/(loss) per share	*15*	**0.13**	(2.93)
Diluted earnings/(loss) per share	*15*	**0.13**	(2.93)

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

Consolidated Statement of Financial Position

As at December 31, 2019

	Note	As at December 31, 2019 RMB'000	2018 RMB'000
Assets			
Cash and cash equivalents	16(a)	**2,169,522**	1,050,111
Restricted cash	16(b)	**264,584**	127,902
Loans to customers at fair value through profit or loss	17	**9,457,673**	8,863,246
Contract assets	18	**523,022**	154,143
Guarantee receivables	19	**621,248**	206,146
Financial assets at fair value through profit or loss	20	**280**	—
Investments accounted for using the equity method	21	**37,430**	27,684
Deferred income tax assets	22	**468,256**	413,117
Right-of-use assets	23	**25,824**	N/A
Intangible assets	24	**22,175**	16,814
Property and equipment	25	**51,196**	59,066
Other assets	26	**648,147**	759,446
Total assets		**14,289,357**	11,677,675
Liabilities			
Borrowings	27	**9,236,329**	8,170,224
Senior notes	28	**678,829**	—
Lease liabilities	23	**25,197**	N/A
Guarantee liabilities	19	**723,617**	204,496
Tax payable		**124,960**	85,400
Deferred income tax liabilities	22	**86,101**	77,734
Other liabilities	29	**314,046**	355,094
Total liabilities		**11,189,079**	8,892,948
Equity			
Share capital	30	**40,913**	40,938
Share premium	30	**5,581,016**	5,581,926
Treasury shares	31	**(51,774)**	—
Reserves	32	**682,913**	380,455
Accumulated losses		**(3,155,790)**	(3,218,592)
Non-controlling interests		**3,000**	—
Total equity		**3,100,278**	2,784,727
Total liabilities and equity		**14,289,357**	11,677,675

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

The consolidated financial statements on pages 56 to 146 were approved by the Board of Directors on March 23, 2020 and were signed on its behalf by:

Ma Ting Hung	**Liu Sai Wang Stephen**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

	Attributable to owners of the Company							
				Reserves				
	Share capital *RMB'000*	Share premium *RMB'000*	Treasury shares held under share award scheme *RMB'000*	Share option reserves *RMB'000*	Translation reserve *RMB'000*	Accumulated losses *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at January 1, 2019	40,938	5,581,926	—	304,945	75,510	(3,218,592)	—	2,784,727
Change on initial application of IFRS 16 *(Note 2.2)*	—	—	—	—	—	(1,988)	—	(1,988)
Restated balance at January 1, 2019	40,938	5,581,926	—	304,945	75,510	(3,220,580)	—	2,782,739
Profit for the year	—	—	—	—	—	64,790	—	64,790
Exchange difference on translation of financial statements	—	—	—	—	(485)	—	—	(485)
Total comprehensive income for the year	—	—	—	—	(485)	64,790	—	64,305
Transactions with owners in their capacity as owners								
Shares repurchased and cancelled	(50)	(3,032)	—	—	—	—	—	(3,082)
Issuance of ordinary shares to employees	25	2,122	—	(475)	—	—	—	1,672
Shares purchases for share award scheme	—	—	(51,774)	—	—	—	—	(51,774)
Contributions from non-controlling interests	—	—	—	—	—	—	3,000	3,000
Share-based payment	—	—	—	303,418	—	—	—	303,418
Total transactions with owners in their capacity as owners	(25)	(910)	(51,774)	302,943	—	—	3,000	253,234
Balance at December 31, 2019	40,913	5,581,016	(51,774)	607,888	75,025	(3,155,790)	3,000	3,100,278

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

	Attributable to owners of the Company						
			Reserves				
	Share capital *RMB'000*	Share premium *RMB'000*	Share option reserves *RMB'000*	Translation reserve *RMB'000*	Other reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at January 1, 2018	394,462	—	29,546	31,405	—	(1,964,023)	(1,508,610)
Changes on initial application of IFRS 9	—	—	—	—	(47,055)	(166,452)	(213,507)
Restated balance at January 1, 2018	394,462	—	29,546	31,405	(47,055)	(2,130,475)	(1,722,117)
Loss for the year	—	—	—	—	—	(1,026,953)	(1,026,953)
Exchange difference on translation of financial statements	—	—	—	44,105	—	—	44,105
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss	—	—	—	—	(14,109)	—	(14,109)
Total comprehensive loss for the year	—	—	—	44,105	(14,109)	(1,026,953)	(996,957)
Transactions with owners in their capacity as owners							
Changes on initial application of par value	(379,823)	379,823	—	—	—	—	—
Issuance of ordinary shares relating to initial public offering and over-allotment, net of underwriting commissions and other issuance costs	5,982	1,145,200	—	—	—	—	1,151,182
Conversion of preferred shares to ordinary shares	20,460	4,071,483	—	—	61,164	(61,164)	4,091,943
Shares repurchased and cancelled	(155)	(15,580)	—	—	—	—	(15,735)
Issuance of ordinary shares to employees	12	1,000	(211)	—	—	—	801
Share-based payment	—	—	275,610	—	—	—	275,610
Total transactions with owners in their capacity as owners	(353,524)	5,581,926	275,399	—	61,164	(61,164)	5,503,801
Balance at December 31, 2018	40,938	5,581,926	304,945	75,510	—	(3,218,592)	2,784,727

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Operating activities			
Cash generated from operating activities	35(a)	**475,438**	3,329,945
Income tax paid		**(107,819)**	(201,706)
Net cash inflow from operating activities		**367,619**	3,128,239
Investing activities			
Payments for property and equipment		**(16,344)**	(14,557)
Payments for intangible assets		**(8,114)**	(5,865)
Payments for construction in progress		**(3,560)**	(3,973)
Payments for financial assets at fair value through profit or loss	35(b)	**(637,080)**	(120,000)
Proceeds from disposal of financial assets at fair value through profit or loss	35(b)	**638,581**	231,905
Proceeds from disposal of subsidiaries, net of cash disposed		**—**	8,425
Dividends from disposed subsidiaries		**—**	27,500
Net cash (outflow)/inflow from investing activities		**(26,517)**	123,435
Financing activities			
Proceeds from/(repayment to) trust plans holders, net	35(b)	**1,634,864**	(2,492,259)
Proceeds from issuance of ordinary shares to employees		**1,672**	123,376
Proceeds from issuance of senior notes	35(b)	**660,602**	—
Contribution from non-controlling shareholders		**3,000**	—
Proceeds from issuance of ordinary shares relating to the initial public offering and over-allotment, net of underwriting commissions and other issuance costs		**—**	1,157,300
Repayment of borrowings, net	35(b)	**(622,889)**	(495,850)
Interest expenses paid	35(b)	**(807,258)**	(978,218)
Repayment for lease liabilities	35(b)	**(36,768)**	N/A
Payment for shares repurchased		**(54,856)**	(15,735)
Payment of listing expenses		**—**	(64,088)
Net cash inflow/(outflow) from financing activities		**778,367**	(2,765,474)
Net increase in cash and cash equivalents		**1,119,469**	486,200
Cash and cash equivalents at the beginning of the financial year		**1,050,112**	568,196
Effects of exchange rate changes on cash and cash equivalents		**(57)**	(4,284)
Cash and cash equivalents at end of the year		**2,169,524**	1,050,112

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

1 GENERAL INFORMATION

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

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

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

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since June 21, 2018 by way of its initial public offering ("**IPO**"). Upon the completion of the IPO, all of the Company's outstanding convertible redeemable preferred shares were converted into the Company's ordinary shares on a one-to-one basis. As at December 31, 2019, the number of ordinary shares in issue was 499,203,789, with a par value of HK$0.1 per share.

These consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

These consolidated financial statements have been approved and authorised for issue by the Board of Directors ("**Board**") of the Company on March 23, 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by International Accounting Standard Board ("**IASB**") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance (Cap.622).

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The Group continued to adopt the going concern basis in preparing its consolidated financial statements.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019:

- IFRS 16, "*Leases*"
- Prepayment Features with Negative Compensation — Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures — Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement — Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The adoption of the revised International Financial Reporting Standards has no significant impact on the Group in 2019.

The Group has adopted IFRS 16, "*Lease*" as issued by the IASB. The Group elected to adopt the new standard retrospectively but recognised the cumulative effect of initially applying the new standard on January 1, 2019. This is disclosed in Note 2.2. Most of the other standards and amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New Standards and Interpretations not yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group. These standards and interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 16, "*Leases*" on the Group's financial statements.

As indicated in Note 2.1, the Group adopted IFRS 16, "*Leases*" retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance of consolidated statement of financial position on January 1, 2019. The new accounting policies are disclosed in Note 2.25.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.18%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at January 1, 2019
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

(ii) Measurements of lease liabilities

	2019 *RMB'000*
Operating lease commitments disclosed as at December 31, 2018	76,319
(Less): short-term leases recognised on a straight-line basis as expense	(4,013)
(Less): lease commitments beginning after January 1, 2019	(16,956)
(Less): others	(2,957)
	52,393
Discounted using the lessee's incremental borrowing rate of at the date of initial application	49,179
Lease liabilities recognised as at January 1, 2019	49,179

(iii) Measurements of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iv) Adjustments recognised in the balance sheet on January 1, 2019

The change in accounting policy affected the following items in the consolidated statement of financial position on January 1, 2019:

- right-of-use assets — increase by RMB49,336,000
- deferred tax assets — increase by RMB476,000
- prepayments — decrease by RMB2,621,000
- lease liabilities — increase by RMB49,179,000

The adoption of IFRS 16 increased accumulated losses on January 1, 2019 by RMB1,988,000.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

(iv) Adjustments recognised in the balance sheet on January 1, 2019 (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.3 Subsidiaries

2.3.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Structured entities through trust

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective.

The Group's structured entities include trust plans. Trust plans are managed by unaffiliated trust companies and invest the funds raised in loans to individuals (Note 17).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

Structured entities through trust (continued)

According to the trust plan agreements, the principal of the trust senior tranche holders and their expected return were fully guaranteed by the Group and the Group is entitled to the residual profits of the trusts. In addition, the trusts only invest in loans suggested by the Group which has the power to direct the activities of the trust plans. As a result, the Group is considered as the primary beneficiary of the trust plans and consolidated the trust plans' assets, liabilities, results of operations and cash flows.

China Banking and Insurance Regulatory Commission, jointly with other regulatory authorities, issued the Circular on Issuing Supplementary Provisions on Supervision of Financing Guarantee Companies (the "**Circular**") on October 24, 2019 to further regulate certain financial guarantee activities. The Circular stated that institutions engaging in the provision of services, such as borrower referrals and credit assessments, to lending institutions shall not provide any financing guarantee services, directly or indirectly (in a disguised manner), without prior approval. The Group has acknowledged the requirements set forth in the Circular and noted the potential non-compliance risk to the current business model for its trust scheme operations going forward. However, taking into consideration of current practice, related regulatory requirements and the environment underlying the trust scheme operations, the Circular may only have a limited impact on the related existing credit enhancement arrangements.

The Group is working on alternative business plans to cope with the implications of the Circular including the restructuring of future credit enhancement arrangements. Based on the Group's stress testing of the potential impact of possible changes to the future business plan, the Group does not consider the Circular will have any significant implications for the consolidated financial statements and the Group operating as a going concern. The Group will pay close attention to developments related to the new regulatory requirements related to the Circular and will continue to monitor the impact to its operations and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(a) Particulars of the principal subsidiaries of the Group as at the end of 2019 are set out below:

Company name (i)	Place of establishment and nature of legal entity	Date of incorporation	Issued capital	Percentage of attributable equity interest As at December 31, 2019	Principal activities and place of operation
Directly owned:					
Vision Credit Limited	Hong Kong/Limited liability company	March 14, 2006	HK$1,500,000,000	100%	Investment holding, Hong Kong
Asia Jumbo Group Limited	The British Virgin Islands/Limited liability company	January 6, 2016	US$1	100%	Investment holding, the British Virgin Islands
VCREDIT Venture Limited	The Cayman Islands/ Limited liability company	March 7, 2018	US$1	100%	Investment holding, the Cayman Islands
VCREDIT Investment Limited	The Cayman Islands/ Limited liability company	July 31, 2018	US$1	100%	Investment holding, the Cayman Islands
Indirectly owned (ii):					
Vision Credit Financial Technology Co., Ltd.	PRC/Wholly foreign owned enterprise	April 14, 2008	RMB689,310,000	100%	Loan facilitation service, the PRC
Shanghai Jingan Vision Small Loan Co., Ltd.	PRC/Wholly foreign owned enterprise	September 16, 2014	RMB200,000,000	100%	Microcredit service, the PRC
Qingdao Vcredit Information Technology Management Co., Ltd.	PRC/Wholly foreign owned enterprise	March 6, 2014	RMB200,000,000	100%	Technology service, the PRC

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

Company name (i)	Place of establishment and nature of legal entity	Date of incorporation	Issued capital	Percentage of attributable equity interest As at December 31, 2019	Principal activities and place of operation
Chengdu Weishi Microfinance Co., Ltd.	PRC/Wholly foreign owned enterprise	December 8, 2011	US$46,500,000	100%	Microcredit service, the PRC
Vision Credit Financing Guarantee Co., Ltd.	PRC/Wholly foreign owned enterprise	December 24, 2009	US$131,700,000	100%	Guarantee service, the PRC
Vision Financial Leasing (Suzhou) Co., Ltd.	PRC/Wholly foreign owned enterprise	July 19, 2011	US$10,000,000	100%	Financial leasing service, the PRC
Shanghai Tiantian Asset Management Co., Ltd.	PRC/Limited liability company	May 31, 2016	RMB10,000,000	100%	Asset management service, the PRC
Multi Fortune Asia Corporation	The British Virgin Islands/Limited liability company	July 3, 2018	US$1	100%	Investment holding, the British Virgin Islands
Double Kingdom International Limited	Hong Kong/Limited liability company	June 9, 2018	HK$1	100%	Investment holding, Hong Kong
Chengdu Vcredit Jiaozi Digital Technology Co., Ltd.	PRC/Limited liability company	September 26, 2019	RMB10,000,000	70%	Technology service, the PRC
Guangdong Weishi Data Technology Co., Ltd.	PRC/Limited liability company	December 16, 2019	—	100%	Technology service, the PRC

(i) All companies comprising the Group have adopted December 31, as their financial year end date.

(ii) The English names of some of the subsidiaries of the Group represent the best effort by the Company's management to translate their Chinese names, as these subsidiaries do not have official English names.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

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

As at December 31, 2019, the trust plans consolidated by the Group amounted to RMB9,853,923,000 (December 31, 2018: RMB9,300,819,000).

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

Consolidated structured entities material to the Group as at December 31, 2019 and 2018 are set out below:

Name	Collective holding by the Group As at December 31 2019 RMB'000	2018 RMB'000	Assets under management As at December 31 2019 RMB'000	2018 RMB'000
Trust Plan A	**457,600**	2,309,418	**1,681,880**	8,982,508
Trust Plan C	**—**	60,672	**—**	60,672
Trust Plan E	**—**	11,760	**—**	117,640
Trust Plan J	**—**	—	**—**	5,329
Trust Plan K	**—**	—	**40,000**	34,670
Trust Plan L	**—**	—	**—**	100,000
Trust Plan M	**17,600**	—	**6,962,500**	—
Trust Plan N	**785,590**	—	**785,590**	—
Trust Plan O	**7,500**	—	**50,000**	—
Trust Plan P	**10,000**	—	**100,000**	—
Trust Plan Q	**15,000**	—	**150,000**	—
Trust Plan R	**—**	—	**40,073**	—
Trust Plan S	**2,000**	—	**12,200**	—
Trust Plan T	**2,300**	—	**21,680**	—
Trust Plan U	**2,500**	—	**10,000**	—
	1,300,090	2,381,850	**9,853,923**	9,300,819

The principal activities of these trust plans are as following: the trust shall, according to the wishes of all the principals, issue trust loans to borrowers recommended by a service vendor, which is agreed or endorsed by principals/beneficiaries.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.2 Separate financial statements

Investments in subsidiaries (including structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceeds the total comprehensive income of the subsidiary in the period the dividends declared or if the carrying amount of the investments in the separate financial statements exceed the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Associates

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, investment in an associate is initially recognised in the consolidated statements of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

At each period end, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Functional currency and foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate ("**the functional currency**"). United States dollars ("**USD**") is the functional currency of the Company and its subsidiaries in Hong Kong. RMB is the functional currency of the subsidiaries in the PRC. As the major operations of the Group are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Translation of foreign currency

Foreign currency transactions are, on initial recognition, translated by applying the foreign exchange rates ruling at the transaction dates. Monetary items denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date, the resulting exchange differences are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the transaction dates. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rates ruling at the dates the fair value was determined. The exchange differences are recognised in profit or loss, except that exchange differences arising from non-monetary items (such as equities held at fair value through other comprehensive income) denominated in foreign currencies are recognised as other comprehensive income.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer and the vice presidents of the Group that make strategic decisions.

Currently, the Group operates its business as one single segmentation. No separate segment information is necessary to be disclosed.

2.7 Cash and cash equivalents

Cash and cash equivalents are assets with a maturity of less than 3 months from the date of acquisition or highly liquid assets with an original maturity of less than three months, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

2.8 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any ECL allowance) or to the amortised cost of a financial liability. The calculation does not consider ECL and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("**POCI**") financial assets — assets that are credit-impaired at initial recognition — the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and liabilities (continued)

Measurement methods (continued)

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

Financial assets that are not 'POCI' but have subsequently become credit-impaired (or "**stage 3**"), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

2.8.1 Financial assets

(i) *Classification and subsequent measurement*

From January 1, 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI);
- Amortised cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and liabilities (continued)

2.8.1 Financial assets (continued)

(i) *Classification and subsequent measurement* (continued)

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans to customers and guarantee receivables.

Classification and subsequent measurement of debt instruments depend on:

- The Group's business model for managing the asset; and

- The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("**SPPI**"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("**OCI**"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated statement of comprehensive income within 'Fair value change of loans to customers' in the period in which it arises. Income from these financial assets is included in 'Interest type income' (Note 2.23(a)) using the effective interest rate concept for calculation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and liabilities (continued)

2.8.1 Financial assets (continued)

(i) *Classification and subsequent measurement* (continued)

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "**SPPI test**"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and liabilities (continued)

2.8.1 Financial assets (continued)

(i) *Classification and subsequent measurement* (continued)

Equity instruments (continued)

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement of profit or loss.

(ii) *Impairment*

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and with the exposure arising from financial guarantee contracts and contract asset. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) *Derecognition*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and liabilities (continued)

2.8.1 *Financial assets* (continued)

(iv) Write-off

Financial assets (and the related ECL allowance) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

2.8.2 *Financial liabilities*

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to convertible redeemable preferred shares and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

Financial guarantee contracts (see Note 2.11).

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2.9 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Determination of fair value (continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

2.11.1 Guarantee liabilities

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the ECL model under IFRS 9 Financial Instruments and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial guarantee contracts (continued)

2.11.2 *Guarantee receivables*

Guarantee premium is collected from borrowers on monthly basis in accordance with guarantee contracts. The guarantee receivables are recognised at loan inception based on future contractual cash-in, which is the same amount as guarantee liability recognised initially. At each reporting date, the Group assesses whether there is any indicator of impairment to any individual underlying loans of the guarantee receivables and credit impairment loss is recognised using ECL model.

2.11.3 *Losses from guarantee*

In accordance with the principles of IFRS 15, gains from guarantee is recognised over the term of the loan. Losses from guarantee are recognised when the amount of guarantee liability determined in accordance with the ECL model is higher than the amortised balance. Aforesaid gains and losses from guarantee are recognised in losses from guarantee on a net basis for each reporting period.

2.12 Intangible assets

The Group's intangible assets are software.

Intangible assets can be recognized only when future economic benefits expected to be obtained from the use of the item will flow into the Group and its cost can be measured reliably. Intangible assets acquired separately are measured on initial recognition at cost.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development staff cost and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Intangible assets (continued)

Intangible assets with finite useful lives are subsequently amortized on the straight-line basis over the useful economic lives which are assessed by the period of bringing economic benefits for the Company. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed, and adjusted if appropriate, at least at each year end.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The expected service lives of intangible assets are as follows:

	Estimated useful lives of the assets
Software	1–10 years

2.13 Property and equipment

The Group's property and equipment mainly comprise flats, furniture and office equipment, motor vehicles, electronic equipment, leasehold improvements, and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and flats comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of flats, leasehold improvements, furniture and office equipment, electronic equipment and motor vehicles are as follows:

Type of assets	Estimated net residuals rate	Estimated useful lives of the assets	Depreciation rate
Flats	0%-5%	20 years	4.75%-5%
Leasehold Improvements	0%-5%	1–5 years	19%-100%
Furniture and office equipment	0%-5%	3–5 years	19%-33.33%
Electronic equipment	0%-5%	3–5 years	19%-33.33%
Motor vehicles	0%-5%	5 years	19%-20%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Property and equipment (continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

2.14 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

2.15 Current and deferred income tax

The income tax expense for the year comprises current and deferred tax. The income taxes are recognized in the consolidated statements of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(1) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the financial statements date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax (continued)

(2) Deferred income tax

(a) Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(b) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred income tax liabilities in relation to taxable temporary differences arising from the associate's undistributed profits are not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.17 Senior notes

Senior notes ("**the Notes**") are notes issued by the Group to raise working capital, which are measured at amortized cost. Interest expense is calculated by applying the effective interest rate to the gross carrying amount of senior notes.

2.18 Share capital and share premium

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Ordinary shares have a par value of HK$0.1.Initial capital injection over par value per share are accounted for share premium.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Group as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Group.

2.19 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Earnings per share (continued)

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.20 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(b) Pension obligations

The employees of the Group are mainly covered by various defined contribution pension plans. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group makes and accrues contributions on a monthly basis to the pension plans, which are mainly sponsored by the related government authorities that are responsible for the pension liability to retired employees. Under such plans, the Group has no other significant legal or constructive obligations for retirement benefits beyond the said contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior years. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

(c) Housing benefits

The employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(d) Medical benefits

The Group makes monthly contributions for medical benefits to the local authorities in accordance with the relevant local regulations for the employees. The Group's liability in respect of employee medical benefits is limited to the contributions payable in each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group.

Share options

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by making reference to the fair value of the options granted:

- Including any market performance condition (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to serve).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement date and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Share award schemes

Under the share award scheme, shares are acquired by the independent trustee from the market, at the cost of the Company and are held on trust for the selected participants until they vest. Vested shares were transferred at no cost to the selected participants. Since the grant date, the market value of the shares issued is recognized over the vesting period as an employee benefits expense, with a corresponding increase in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Share-based payments (continued)

(b) Share-based payment transactions among group entities

The grant by the Company of share options, share award schemes and over their equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the parent entity accounts.

2.22 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.23 Revenue recognition

Revenue is recognised when service is provided to the customer. Depending on the terms of the contract and the laws that apply to the contract, service may be provided over time or at a point in time. Service is provided over time if the Group's performance:

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

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

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

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Revenue recognition (continued)

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 the Group has 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 the principal revenue streams of the Group.

(a) Interest type income

The Group has originated and held loans mainly through the consolidated trust plans, and also directly lend to borrowers. The Group use nominal interest rate to calculate total income for each loan and recognise the income based on similar effective interest method as interest type income. The transaction costs are not added to or deducted from the initial fair value, but are immediately recognized in profit or loss on initial recognition.

The effective interest method is a method of calculating the amortised 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, the Group estimates 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.

(b) Non-interest income

Loan facilitation service fees and gains from guarantee

In some arrangements where the Group is not the loan originator, the Group also generates non-interest service fees by facilitating transactions between borrowers and financial institutions. The Group determined that it is not the legal lender and legal borrower in the loan origination and repayment process. Therefore, the Group does not record loans receivable and payable arising from the loans.

The Group's services consist of:

i) Upfront loan facilitation service: matching potential qualified borrowers to institutional investors and facilitating the execution of loan agreements between the parties;

ii) Post loan facilitation service: providing repayment processing services for the institutional investors over the loan term, including following up on the late repayments;

iii) Guarantee service provided to financial institutions, if applicable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Revenue recognition (continued)

(b) ***Non-interest income*** (continued)

Loan facilitation service fees and gains from guarantee (continued)

The Group receives upfront payments from borrowers at loan inception (if applicable) and subsequent payments over the term of the loan. The total service fees are first allocated to the guarantee liabilities (Note 2.11) at fair value which meets the definition of a financial guarantee under IFRS 9. The remaining amount is then allocated to upfront loan facilitation service and post loan facilitation service using best estimated selling price, as neither vendor specific objective evident or third party evidence of selling price is available.

Upfront loan facilitation service fee is recognized at loan inception. When the cash received does not equal to the fee allocated the upfront loan facilitation service, a “Contract Asset” or “Contract Liability” shall be recognized in the consolidated statements of financial position; Post loan facilitation fee is recognized over the term of the loan, which approximates the pattern of when the underlying services are performed. Gains from guarantee are recognized ratably over the term of the loan.

Penalty charges

Penalty charges are the additional charges upon default of borrowers. Penalty charges are recognized as other income when incurred on a case-by-case basis. The collectability of these amounts is often highly uncertain. Penalty charges are only highly probable to be collected when the actual overdue amounts are repaid and are recognized as revenue when the cash of the penalty payments is actually collected.

User membership fees

User membership provides registered users on the platform with credit report analysis service, discount vouchers for marketplace business partners, and other exclusive rights. Membership prices are determined by the Group according to various service packages, membership term and price sensitivities of different borrowers. Each service in the membership program is treated as an individual obligation and is allocated with a standalone transaction price. User membership fees are collected at inception and are recognized as other income when certain obligations are satisfied.

Referral fees

The Group generally is not the primary obligator nor have the ability to establish the price. The Group is not exposed to the credit risk when directing borrowers to third-party service provider. Upon the third-party service provider’s confirmation of a successful payment of service fee, the Group will charge the third-party service provider a fixed rate referral service fee based on the transaction amount and recognise the amount in other income on a net basis. The third-party service provider will settle the payments periodically.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Revenue recognition (continued)

(b) Non-interest income (continued)

Other consulting service fees

The Group provides consulting services to certain business partners and charges consulting service fees based on employees' actual working hours occupied and charge rates agreed in consulting service contracts. The Group recognizes other consulting service fees on accrual basis regarding to employees' consulting hours recorded in system. Business partners will settle the payments periodically.

2.24 Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2.25 Leases

For the year ended December 31, 2018, the Group applied IAS17. All leases are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

For the year ended December 31, 2019, as explained in Note 2.2, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and

- makes adjustments specific to the lease, e.g. term, country, currency and security.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;

- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and

- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Measurement of the ECL allowance

The measurement of the ECL allowance for financial assets measured at amortised cost and financial guarantee contracts is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

(i) Determining criteria for significant increase in credit risk;

- The financial instrument considered to have experienced a significant increase in credit risk if the borrower is 30 days past due on its contractual payments.

- Using other warning list as supplement criteria such as fraudulent list.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.1 Measurement of the ECL allowance (continued)

(ii) Choosing appropriate models and assumptions for the measurement of ECL;

- The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability for Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), or ECL=PD*LGD*EAD*discounted rate.

- The calculation of PD and LGD started with Group's historical information. PD and LGD are calculated by type of products, internal risk grades and loan durations as appropriate.

- EAD is calculated based on the amounts the Company expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

- The discounted rate (DF) used in the ECL calculation is the original effective interest rate or an approximation thereof.

(iii) Establishing the number and relative weighting of forward-looking scenarios for each type of product/market and the associated ECL;

- The Group used the Merton Model to estimate the relationship between ECL and forward-looking scenarios.

- Based on economic statistics, three different prospective scenarios, namely the "base", the "upside" and the "downside" are used with 80%, 10% and 10% weighting respectively.

- The Group has performed historical analysis and identified the key economic variable impacting credit risk and ECL of each portfolio. The most significant assumption used are CPI and GDP, given their impact on the loans provided by the Group.

3.2 Fair value of loans to customers

Fair value of loans to customers represent management's best estimate of discounted cash flow of the loan portfolios at the reporting date. Management is required to exercise judgement in making assumptions and estimates when calculating fair value of loans to customers. The Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from each loan before the decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of a borrower (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics similar to each loan. The methodology and assumptions used for estimating the amount and timing of future cash flows, the historical loss experience and the relevant observable data are reviewed regularly to reduce any differences between fair value change of loans to customers and actual loss experience.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3 Measurement of financial guarantee liability

The financial guarantee liability is an expected compensation which will be paid in the future due to guarantee contract arrangement. When measuring the financial guarantee liabilities, the Group needs to make a reasonable estimate of the amounts that the Group is 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. Please refer to Note 2.11 for initial and subsequent measurement for financial guarantee liability.

3.4 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. The Company has used Binomial option-pricing model to determine the fair value of the share options as at the grant date. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. The Group only recognizes 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 instalment of a graded vesting award is treated as a separate share-based award, which means that each vesting instalment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expense.

3.5 Recognition of deferred income tax assets

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Management judgement is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and the level of future taxable profits of the individual entities together with tax planning strategies.

3.6 Recognition of loan facilitation service fees

The Group considers the upfront loan facilitation services and post loan facilitation services as distinct performance obligations. However, the Group does not provide these services separately, and the third-party evidence of selling price does not exist either, as public information is not available regarding the amount of fees competitors charge for these services. As a result, the Group uses the expected-cost-plus-a-margin approach to determine its best estimate of selling prices of the different deliverables as the basis for allocation. When estimating the selling prices, the Group considers the cost related to such services, profit margin, customer demand, effect of competition, and other market factors, if applicable.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.7 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(1) Market risk — foreign exchange risk

The transactions of the Company are denominated and settled in its functional currency, USD. The Group's subsidiaries primarily operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, HKD and EUR. Therefore, foreign exchange risk primarily arose from bank deposits in the Group's Hong Kong subsidiary.

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rates against HKD, USD and EUR by 5% on the Group's profit/(loss) before income tax:

	Expected changes in profit/(loss) before income tax Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
5% appreciation of RMB	**(2,501)**	16,426
5% depreciation of RMB	**2,501**	(16,426)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index, regardless of:

- 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;

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(1) *Market risk — foreign exchange risk* (continued)

- No consideration of impact on market price resulted from interest rate changes;
- No consideration of actions taken by the Group.

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

(2) *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 which impact the overall profitability and fair value resulting in losses to the Group. The key determinants of the Group's interest rate risk arise from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in repricing risk and basis risk.

The Group's financial department and risk management department jointly monitored and managed the Group's interest rate risk.

The following tables indicate the exposure to interest rate risk for the respective period, and the expected next repricing dates (or maturity dates whichever are earlier) for the interest bearing assets and liabilities of the Group:

	As at December 31, 2019				
	Up to 3 months *RMB'000*	3 months to 1 year *RMB'000*	1–5 years *RMB'000*	Non-interest bearing *RMB'000*	Total *RMB'000*
ASSETS					
Cash and cash equivalents	2,169,522	—	—	—	2,169,522
Restricted cash	—	37,801	226,783	—	264,584
Loans to customers at fair value through profit or loss	1,045,515	7,211,103	1,201,055	—	9,457,673
Guarantee receivables	—	—	—	621,248	621,248
Financial assets at fair value through profit or loss	280	—	—	—	280
Other financial assets	—	2,670	67,227	528,618	598,515
Total financial assets	3,215,317	7,251,574	1,495,065	1,149,866	13,111,822
LIABILITIES					
Borrowings	(811,823)	(7,483,509)	(853,630)	(87,367)	(9,236,329)
Senior notes	—	—	(676,523)	(2,306)	(678,829)
Lease liabilities	(5,045)	(10,039)	(10,113)	—	(25,197)
Guarantee liabilities	—	—	—	(723,617)	(723,617)
Other financial liabilities	—	(70,671)	(32,849)	(158,766)	(262,286)
Total financial liabilities	(816,868)	(7,564,219)	(1,573,115)	(972,056)	(10,926,258)
Total interest rate sensitivity gap	2,398,449	(312,645)	(78,050)	177,810	2,185,564

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(2) Market risk — interest rate risk (continued)

	As at December 31, 2018				
	Up to 3 months	3 months to 1 year	1–5 years	Non-interest bearing	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Cash and cash equivalents	1,050,111	—	—	—	1,050,111
Restricted cash	—	16,929	110,973	—	127,902
Loans to customers at fair value through profit or loss	1,069,798	4,191,251	3,602,197	—	8,863,246
Guarantee receivables	—	—	—	206,146	206,146
Other financial assets	—	1,000	115,667	588,005	704,672
Total financial assets	2,119,909	4,209,180	3,828,837	794,151	10,952,077
LIABILITIES					
Borrowings	(966,174)	(5,918,622)	(1,246,480)	(38,948)	(8,170,224)
Guarantee liabilities	—	—	—	(204,496)	(204,496)
Other financial liabilities	(46,135)	(27,934)	(49,110)	(133,830)	(257,009)
Total financial liabilities	(1,012,309)	(5,946,556)	(1,295,590)	(377,274)	(8,631,729)
Total interest rate sensitivity gap	1,107,600	(1,737,376)	2,533,247	416,877	2,320,348

Sensitivities on fixed-rate financial instruments

The Group performs interest rate sensitivity analysis on profit for the Group by measuring the impact of a change in profit of financial assets and liabilities. On an assumption of a parallel shift of 50 basis points in RMB, USD, HKD and EUR interest rates, the Group calculates the changes in profit for the year on a monthly basis.

The table below illustrates the impact to profit/(loss) before income tax of the coming year as at each reporting date based on the structure of interest bearing assets and liabilities as at December 31, 2019, caused by a parallel shift of 50 basis points of RMB, USD, HKD and EUR interest rates.

	Expected changes in profit/(loss) before income tax Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
+50 basis points	**9,907**	1,588
- 50 basis points	**(9,907)**	(1,588)

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(2) Market risk — interest rate risk (continued)

Sensitivities on fixed-rate financial instruments (continued)

In the sensitivity analysis, the Group adopts 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 date, regardless of subsequent changes;
- No consideration of impact on customers' behavior resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of actions taken by the Group.

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

(3) 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 the Group. The Group is exposed to credit risk in relation to its cash and cash equivalents, restricted cash, guarantee receivables and other financial assets. The Group manages the credit risk through a comprehensive credit assessment system.

To manage this risk arising from cash and cash equivalents and restricted cash, the Group only transacts with state-owned or reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relations to these financial institutions.

The Group has formulated a complete set of credit management processes and internal control mechanisms, so as to carry out whole process management of credit business. Credit management procedures for its loans comprise the processes of credit origination, credit review, credit approval, disbursement, post-disbursement monitoring and collection. Risks arising from financial guarantees are similar to those associated with loans. Transactions of financial guarantees are subject to the same portfolio management and the same requirements for application as loans to customers.

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

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) Credit risk (continued)

Credit risk measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

Measurement of ECL

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ("**SICR**") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECL on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month ECL	Lifetime ECL	Lifetime ECL

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) Credit risk (continued)

Measurement of ECL (continued)

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. No qualitative criterion is considered by the Group since the Group monitors the risk of borrowers purely based on overdue period.

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired if the borrower is more than 90 days past due on its contractual payments. No qualitative criterion is considered by the Group since the Group monitors the risk of borrowers purely based on overdue period.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Group's expected loss calculations.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) Credit risk (continued)

Measurement of ECL (continued)

Measuring ECL — Explanation of inputs, assumptions and estimation techniques (continued)

- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

Forward-looking economic information is included in determining the 12-month and lifetime PD. These assumptions vary by product type.

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) Credit risk (continued)

Measurement of ECL (continued)

Measuring ECL — Explanation of inputs, assumptions and estimation techniques (continued)

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variable impacting credit risk and expected credit losses for each portfolio.

The Group applies expert judgment in the forecast of the economic variable to obtain the best estimate view of the economy over the next one year. The impact of the economic variable on the PD has been determined by performing Euclidean Distance analysis to understand the impact changes in the variable have had historically on default rates.

In addition to the base economic scenario, the Group also obtained other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date and at 31 December 2019, the Group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) Credit risk (continued)

Measurement of ECL (continued)

Forward-looking information incorporated in the ECL models (continued)

The assessment of ECL incorporates forward-looking information in respect of PD. The Group has performed historical analysis and identified the key economic variable impacting credit risk and ECL for loan portfolio. In 2019, the Group enlarged the economic variable scope by adding GDP into consideration. Back testing has been performed to prove these two variables are the most relevant:

Key economic variable	Scenario	2019	2018
CPI (Consumer Price Index)	Base	3.09%-3.44%	1.95%-2.52%
	Upside	3.62%-4.07%	2.10%-2.70%
	Downside	2.11%-2.57%	1.70%-2.40%
GDP (Gross Domestic Product)	Base	5.77%-6.14%	N/A
	Upside	5.94%-6.44%	N/A
	Downside	5.55%-6.04%	N/A

The Group uses economic variable assumptions when determine expected CPI and GDP. The weightings assigned to each economic scenario at December 31, 2019 were as follows:

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

Sensitivity analysis

The most significant assumption affecting the ECL allowance is CPI and GDP.

Set out below are the changes to the ECL as at December 31, 2019 that would result by varying CPI and GDP by 0.5 standard deviation ("σ") respectively. In each of the base, upside and downside scenarios:

		GDP	
	-0.5 σ *RMB'000*	No change *RMB'000*	+0.5 σ *RMB'000*
CPI -0.5 σ	74,326	35,325	—
CPI No change	35,325	—	(32,243)
CPI +0.5 σ	—	(32,243)	(62,663)

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

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) Credit risk (continued)

Measurement of ECL (continued)

Sensitivity analysis (continued)

For CPI and GDP, assuming a 10% increase in the weight of the upside scenario and a 10% reduction in the weight of the base scenario, the Group's ECL on December 31, 2019 is reduced by RMB13,078,000; assuming a 10% increase in the weight of the downside scenario and a 10% reduction in the weight of the base scenario, the Group's ECL is increased by RMB22,238,000.

Maximum exposure to credit risk before collateral held or other credit enhancements

	As at December 31, 2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**2,169,522**	1,050,111
Restricted cash	**264,584**	127,902
Contract assets	**523,022**	154,143
Stage 1	**517,510**	153,412
Stage 2	**3,754**	515
Stage 3	**1,758**	216
Guarantee receivables	**621,248**	206,146
Stage 1	**616,053**	205,034
Stage 2	**3,558**	775
Stage 3	**1,637**	337
Other assets	**598,515**	704,672
Total	**4,176,891**	2,242,974

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(4) 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 the Group's obligations as they become due. The liquidity of the assets will affect the Group's ability for paying the due debt. The Group is responsible for its own cash flow prediction and continues to monitor both short-term and long-term funding needs, in order to maintain sufficient reserves of cash and marketable securities available at any time.

The table below presents the cash flows receivable and payable by the Group under financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, and the Group manages the liquidity risk based on the estimation of future cash flows.

	As at December 31, 2019				
	On demand	Overdue	Within 1 year	1–5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Cash and cash equivalents	2,146,477	—	23,065	—	2,169,542
Restricted cash	—	—	37,867	227,577	265,444
Loans to customers at fair value through profit or loss	—	506,965	11,053,611	626,822	12,187,398
Financial assets at fair value through profit or loss	280	—	—	—	280
Guarantee receivables	—	15,093	593,497	12,658	621,248
Other financial assets	—	—	426,874	174,414	601,288
Total financial assets	2,146,757	522,058	12,134,914	1,041,471	15,845,200
Liabilities					
Borrowings	—	—	(8,847,103)	(1,001,245)	(9,848,348)
Senior notes	—	—	(75,884)	(727,792)	(803,676)
Lease liabilities	—	—	(16,445)	(10,867)	(27,312)
Guarantee liabilities	—	—	(593,659)	(129,958)	(723,617)
Other financial liabilities	—	—	(187,439)	(77,547)	(264,986)
Total financial liabilities	—	—	(9,720,530)	(1,947,409)	(11,667,939)
Net value	2,146,757	522,058	2,414,384	(905,938)	4,177,261

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(4) Liquidity risk (continued)

	As at December 31, 2018				
	On demand	Overdue	Within 1 year	1–5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Cash and cash equivalents	990,092	—	60,913	—	1,051,005
Restricted cash	—	—	16,988	111,361	128,349
Loans to customers at fair value through profit or loss	—	485,282	8,176,706	2,801,483	11,463,471
Guarantee receivables	—	3,906	199,059	3,181	206,146
Other financial assets	29,154	—	526,171	138,847	694,172
Total financial assets	1,019,246	489,188	8,979,837	3,054,872	13,543,143
Liabilities					
Borrowings	—	—	(7,458,273)	(1,352,746)	(8,811,019)
Guarantee liabilities	—	—	(199,483)	(5,013)	(204,496)
Other financial liabilities	(1,701)	—	(169,581)	(59,539)	(230,821)
Total financial liabilities	(1,701)	—	(7,827,337)	(1,417,298)	(9,246,336)
Net value	1,017,545	489,188	1,152,500	1,637,574	4,296,807

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including capital reserve on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Group's shares. In the opinion of the directors of the Group, the Group's capital risk is low.

4 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value measurement of financial instruments

Fair value hierarchy

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at December 31, 2019 and December 31, 2018 on a recurring basis:

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

	Valuation techniques and key input	As at December 31, 2018			
		Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets					
Loans to customers at fair value through profit or loss	Discounted cash flow method (i)	—	—	8,863,246	8,863,246
		—	—	8,863,246	8,863,246

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

4 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value measurement of financial instruments (continued)

Fair value hierarchy (continued)

The following table presents the changes in level 3 asset instruments for the year ended December 31, 2018 and 2019:

	RMB'000
At January 1, 2019	**8,863,246**
Additions	**18,270,541**
Disposals	**(15,617,632)**
Gains or losses recognized in profit or loss	**(2,058,482)**
At December 31, 2019	**9,457,673**
At January 1, 2018	11,394,328
Additions	16,701,203
Disposals	(18,100,867)
Gains or losses recognized in profit or loss	(1,131,418)
At December 31, 2018	8,863,246

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at December 31, 2019.

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

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

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

4 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value measurement of financial instruments (continued)

Fair value measurements using significant unobservable inputs

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

As at December 31, 2019, the level 3 instruments were mainly loans to customers at fair value through profit or loss. As the loans to customers are not traded in an active market, its fair value have been determined using discounted cash flows. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimate of discount rate, and other exposure etc. Discount rate was estimated by weighted average cost of capital as at each reporting date. The managements estimated the risk-free interest rate based on the yield of China Government Bond with a maturity life equal to period from the respective reporting date to expected cash flow date.

The table below illustrates the impact to profit/(loss) before income tax for the year ended December 31, 2019, if the discount rate used had increased/decreased by 100 basis points with all other variables held constant.

	Expected changes in profit/(loss) before income tax For the year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
+100 basis points	**(31,074)**	(49,457)
-100 basis points	**31,146**	50,633

The Group also has a number of financial instruments which are not measured at fair value in the statement of financial position such as guarantee receivables, other receivables, and other payables. For these instruments, the fair values are not materially different to their carrying amounts.

5 NET INTEREST TYPE INCOME

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Interest type income		
Loans to customers at fair value through profit or loss	**2,642,081**	2,930,339
Less: interest expenses		
Payable to trust plan holders	**(728,433)**	(817,766)
Borrowings from corporations	**(77,578)**	(116,458)
Senior notes	**(44,438)**	—
Borrowings from individuals	**(8,153)**	(33,174)
Secured borrowings	**(13)**	(93)
Others	**(3,559)**	(7,279)
	(862,174)	(974,770)
Net interest type income	**1,779,907**	1,955,569

6 LOAN FACILITATION SERVICE FEES

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Upfront loan facilitation service fees	**1,119,343**	230,560
Post loan facilitation service fees	**128,034**	39,272
	1,247,377	269,832

Note: The unsatisfied performance obligations as at December 31, 2019 are RMB90,976,000. Management expects that 97% of the transaction price allocated to the unsatisfied contracts as at December 31, 2019 will be recognized as revenue within the next 12 months.

7 OTHER INCOME

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Membership fees and referral fees (i)	**794,581**	351,653
Penalty and service charges	**327,228**	240,832
Losses from guarantee	**(318,381)**	(160,436)
Others	**33,645**	79,133
	837,073	511,182

(i) The unsatisfied performance obligations as at December 31, 2019 are RMB849,000 (December 31, 2018: RMB50,492,000). Management expects that 100% of the transaction price allocated to the unsatisfied contracts as at December 31, 2019 will be recognized as revenue within the next 6 months.

8 EXPENSES BY NATURE

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Loan origination and servicing expenses	**(593,525)**	(580,377)
Employee benefit expenses *(Note 9)*	**(520,559)**	(615,745)
Depreciation and amortization	**(65,213)**	(31,430)
Professional service fees	**(63,561)**	(83,758)
Office expenses	**(48,950)**	(39,966)
Tax and surcharge	**(22,619)**	(12,827)
Branding expenses	**(6,066)**	(16,242)
Audit remuneration		
— Audit service fees	**(5,000)**	(9,406)
— Non-audit service fees	**(154)**	(792)
Office rental	**—**	(57,534)
Others	**(13,907)**	(20,048)
Total origination and servicing expenses, sales and marketing expenses, general and administrative expenses, and research and development expenses	**(1,339,554)**	(1,468,125)

9 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**(171,573)**	(257,467)
Pension costs — defined contribution plans	**(18,473)**	(39,151)
Other social security costs, housing benefits and other employee benefits	**(27,095)**	(43,517)
Share-based compensation expenses	**(303,418)**	(275,610)
	(520,559)	(615,745)

10 DIRECTORS' REMUNERATION

The remuneration of every director for the year ended December 31, 2019 is set out as follows:

	Director's fee	Salaries, wages and bonuses	Pension costs — defined contribution plan	Other social security costs, housing benefits and other employee benefits	Share-based compensation expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
Liu Sai Wang Stephen (a)	2,657	527	—	13	185,912	189,109
Liu Sai Keung Thomas (b)	2,446	527	—	19	1,857	4,849
Non-Executive Directors						
Ma Ting Hung (c)	—	—	—	1,647	15,513	17,160
Chen Penghui (d)	211	—	—	—	—	211
Seek Ngee Huat (e)	211	—	—	—	—	211
Wu Chak Man (f)	211	—	—	—	—	211
	5,736	1,054	—	1,679	203,282	211,751

The remuneration of every director for the year ended December 31, 2018 is set out as follows:

	Director's fee	Salaries, wages and bonuses	Pension costs — defined contribution plan	Other social security costs, housing benefits and other employee benefits	Share-based compensation expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
Liu Sai Wang Stephen (a)	1,623	278	—	9	173,950	175,860
Liu Sai Keung Thomas (b)	1,464	278	—	13	1,251	3,006
Non-Executive Directors						
Ma Ting Hung (c)	—	—	—	1,553	14,811	16,364
Chen Penghui (d)	107	—	—	—	—	107
Seek Ngee Huat (e)	107	—	—	—	—	107
Wu Chak Man (f)	107	—	—	—	—	107
	3,408	556	—	1,575	190,012	195,551

10 DIRECTORS' REMUNERATION (continued)

No director's termination benefit subsisted at the end of the year or at any time during the year.

No consideration provided to or receivable by third parties for making available directors' services subsisted at the end of the year or at any time during the year.

No loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office at the end of the year or at any time during the year.

Notes:

(a) Appointed as director of the Company in September 2007;

(b) Appointed as director of the Company in November 2017;

(c) Appointed as director of the Company in September 2007;

(d) Appointed as director of the Company in June 2018;

(e) Appointed as director of the Company in June 2018;

(f) Appointed as director of the Company in June 2018.

11 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2018 and 2019 include 3 and 2 directors whose emoluments are reflected in the analysis shown in Note 10. All of the five highest paid individuals have not received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office for each of the years ended December 31, 2018 and 2019. The emoluments payable to the remaining 2 and 3 individuals for each of the years ended December 31, 2018 and 2019 are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**3,116**	1,528
Pension costs — defined contribution plans	**98**	50
Other social security costs, housing benefits and other employee benefits	**349**	47
Share-based compensation expenses	**48,546**	35,480
	52,109	37,105

11 FIVE HIGHEST PAID INDIVIDUALS (Continued)

The emoluments fell within the following bands:

	Year ended December 31, 2019	2018
Nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$1,500,000	**—**	—
HK$1,500,001 to HK$2,000,000	**—**	—
Over HK$2,000,000	**3**	2
	3	2

12 CREDIT IMPAIRMENT LOSSES

	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Cash and cash equivalents	**(1)**	3
Restricted cash	**(34)**	1
Contract assets	**(146,069)**	(17,293)
Guarantee receivables	**(165,586)**	(35,998)
Other assets	**2,589**	(1,061)
	(309,101)	(54,348)

13 OTHER (LOSSES)/GAINS, NET

	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Finance cost, net (i)	**(4,632)**	(19,366)
Gain from financial assets at fair value through profit or loss	**1,781**	1,360
Gain from disposal of subsidiary	**—**	35,589
	(2,851)	17,583

(i) Finance cost, net

	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Exchange losses	**(10,261)**	(25,718)
Interest expense on lease liabilities *(Note 23)*	**(2,548)**	N/A
Bank charges	**(1,848)**	(999)
Bank interest income	**12,439**	7,351
Others	**(2,414)**	—
	(4,632)	(19,366)

14 INCOME TAX EXPENSE

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Current income tax	**(145,837)**	(185,241)
Deferred income tax	**46,296**	106,709
	(99,541)	(78,532)

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

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Profit/(Loss) before income tax:	**164,331**	(948,421)
Tax calculated at PRC statutory income tax rate of 25%	**(41,083)**	237,105
Tax effects of:		
— Expenses not deductible for income tax purpose	**(76,537)**	(72,881)
Share-based compensation	**(75,854)**	(68,902)
Others	**(683)**	(3,979)
— Effect from fair value change of preferred shares	**—**	(261,789)
— Differential income tax rates applicable to the Company and subsidiaries (i)	**14,628**	19,266
— Revenue not subject to income tax	**—**	4,125
— Super deduction for research and development expenses	**4,724**	9,061
— No recognition of deferred tax assets on tax losses	**(1,273)**	(13,419)
Income tax expense	**(99,541)**	(78,532)

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

British Virgin Islands

Enterprise incorporated in the British Virgin Islands (BVI) is not subject to tax on income or capital gains.

Cayman Islands

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

14 INCOME TAX EXPENSE (Continued)

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

China

The PRC Enterprise Income Tax Law (the "**EIT Law**") applies an income tax rate of 25% to all enterprises but grants preferential tax treatments to High and New Technology Enterprises ("**HNTEs**"). Under these preferential tax treatments, HNTEs can enjoy a preferential income tax rate of 15% for three years, but need to re-apply after the end of the three-year period. Vision Credit Financial Technology Company, an indirect wholly-owned subsidiary of the Company, qualified as HNTE under the EIT law in October 23, 2014. In November 2017, Vision Credit Financial Technology Company was further approved as HNTE and will continue to enjoy the preferential income tax rate of 15% from 2018 to 2020. Therefore, Vision Credit Financial Technology Company was entitled to a preferential income tax rate of 15% for the years ended December 31, 2019.

Hong Kong

Enterprise incorporated in Hong Kong ("**HK**") is subject to Corporate Income Tax rate of 16.5%.

Withholding Tax on Undistributed Profits

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

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

15 EARNINGS/(LOSS) PER SHARE

Weighted average number of shares used as the denominator

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Earnings/(Loss) attributable to owners of the Company	**64,790**	(1,026,953)
Weighted average number of ordinary shares for calculation of the basic earnings per share *('000)*	**494,987**	350,239
Weighted average number of ordinary shares for calculation of the diluted earnings per share *('000)*	**502,738**	350,239
Basic earnings/(loss) per share *(RMB)*	**0.13**	(2.93)
Diluted earnings/(loss) per share *(RMB)*	**0.13**	(2.93)

15 EARNINGS/(LOSS) PER SHARE (Continued)

(a) Basic earnings/(loss) per share is calculated by dividing the profit/(loss) of the Group attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

(b) For year ended December 31, 2019, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and share awards granted by the Company (collectively forming the denominator for computing diluted earnings per share). No adjustment is made to earnings (numerator).

	Year ended December 31, 2019 Number of ordinary shares *('000)* (Unaudited)
Weighted average number of ordinary shares for calculation of the basic earnings per share	**494,987**
Adjustments for share options and share awards granted	**7,751**
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	**502,738**

(c) For the year ended December 31, 2018, the Group had two categories of potential ordinary shares, the share options awarded (Note 33) and convertible redeemable preferred shares. As the Group incurred loss for year ended December 31, 2018, the potential ordinary shares were not included in the calculation of diluted loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the year ended December 31, 2018 was the same as basic loss per share.

16 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at December 31, 2019 *RMB'000*	2018 *RMB'000*
Cash at bank	**1,130,115**	839,324
Cash held through platform (i)	**1,039,409**	210,788
Less: ECL allowance	**(2)**	(1)
	2,169,522	1,050,111

(i) The balance represents deposits of the Group held by third party payment companies.

16 CASH AND BANK BALANCES (Continued)

(b) Restricted cash

	As at December 31, 2019 RMB'000	2018 RMB'000
Pledged cash in banks	**264,637**	127,921
Less: ECL allowance	**(53)**	(19)
	264,584	127,902

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

17 LOANS TO CUSTOMERS AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of loans is as follows:

	As at December 31, 2019 RMB'000	2018 RMB'000
Unsecured	**8,822,968**	7,288,408
Pledged	**634,705**	1,574,838
	9,457,673	8,863,246

For the year ended December 31, 2019, all loans to customers originated are personal loans made to individual borrowers with original term up to 24 months. The annualized interest rates of these loans ranged between 8.8% to 35.4%.

The Group has established business relationship with the trust plans which were administered by third-party trust companies. The trust plans invested solely in loans on the Group's platform to provide returns to the beneficiaries of the trust plans. The Group entered into the agreements that the principal of the trust senior tranche holders and their expected return were fully guaranteed by the Group. Meanwhile, all the secondary beneficial right was taken by the Group, and the Group was entitled to the residual profits of the trusts. The Group holds variable interest in the trust plans. In addition, since the trust plans only invest in loans recommended by the Group, the Group has power to direct the activities of the trust plans. As a result, the Group is considered the primary beneficiary of the trust plans and consolidated the trust plans' assets, liabilities, results of operations and cash flows.

17 LOANS TO CUSTOMERS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

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

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Within 1 year (including 1 year)	**8,028,905**	5,026,719
1 to 2 years (including 2 years)	**260,124**	716,378
2 to 5 years (including 5 years)	**1,168,644**	3,120,149
	9,457,673	8,863,246

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

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Overdue	**506,965**	485,282
Within 1 year (including 1 year)	**8,256,618**	5,261,049
1 to 2 years (including 2 years)	**363,427**	1,579,993
2 to 5 years (including 5 years)	**330,663**	1,536,922
	9,457,673	8,863,246

18 CONTRACT ASSETS

The Group uses the expected-cost-plus-a-margin approach to determine its best estimate of selling prices of the different deliverables as the basis for allocation. The service fee allocated to loan facilitation is recognized as revenue upon execution of loan agreements between investors and borrowers. When the fee allocated to the loan facilitation service is more than the cash received, a "Contract Asset" was recognized as follows:

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Contract assets	**655,815**	174,039
Less: ECL allowance	**(132,793)**	(19,896)
	523,022	154,143

18 CONTRACT ASSETS (Continued)

Movement of gross carrying amount

Contract assets	Year ended December 31, 2019 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
Opening balance at January 1, 2019	**162,776**	**5,528**	**5,735**	**174,039**
New financial assets originated or purchased	**650,352**	**—**	**—**	**650,352**
Transfer for the year:				
From stage 1 to stage 2	**(43,084)**	**43,084**	**—**	**—**
From stage 1 to stage 3	**(65,776)**	**—**	**65,776**	**—**
From stage 2 to stage 1	**3**	**(3)**	**—**	**—**
From stage 2 to stage 3	**—**	**(5,283)**	**5,283**	**—**
From stage 3 to stage 1	**2**	**—**	**(2)**	**—**
Asset derecognised (including final repayment)	**(132,921)**	**(242)**	**(8,447)**	**(141,610)**
Asset written off	**—**	**—**	**(26,966)**	**(26,966)**
Ending balance	**571,352**	**43,084**	**41,379**	**655,815**

Contract assets	Year ended December 31, 2018 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
Opening balance at January 1, 2018	95,945	3,928	8,918	108,791
New financial assets originated or purchased	177,399	—	—	177,399
Transfer for the year:				
From stage 1 to stage 2	(5,527)	5,527	—	—
From stage 1 to stage 3	(18,791)	—	18,791	—
From stage 2 to stage 1	4	(4)	—	—
From stage 2 to stage 3	—	(2,609)	2,609	—
Asset derecognised (including final repayment)	(86,254)	(1,314)	(4,046)	(91,614)
Asset written off	—	—	(20,537)	(20,537)
Ending balance	162,776	5,528	5,735	174,039

18 CONTRACT ASSETS (Continued)

Movement of ECL allowance

ECL allowance	Year ended December 31, 2019 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
Opening balance at January 1, 2019	(9,364)	(5,013)	(5,519)	(19,896)
New financial assets originated or purchased	(47,775)	—	—	(47,775)
Transfer for the year:				
From stage 1 to stage 2	3,165	(39,196)	—	(36,031)
From stage 1 to stage 3	4,832	—	(63,141)	(58,309)
From stage 2 to stage 1	—	2	—	2
From stage 2 to stage 3	—	4,806	(5,071)	(265)
From stage 3 to stage 1	—	—	2	2
Asset derecognised (including final repayment)	9,764	220	8,109	18,093
Changes to risk parameters (model inputs)	(14,464)	(149)	(967)	(15,580)
Asset written off	—	—	26,966	26,966
Ending balance	(53,842)	(39,330)	(39,621)	(132,793)

ECL allowance	Year ended December 31, 2018 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
Opening balance at January 1, 2018	(13,737)	(3,487)	(7,712)	(24,936)
New financial assets originated or purchased	(16,174)	—	—	(16,174)
Transfer for the year:				
From stage 1 to stage 2	504	(4,959)	—	(4,455)
From stage 1 to stage 3	1,713	—	(17,166)	(15,453)
From stage 2 to stage 1	—	4	—	4
From stage 2 to stage 3	—	2,341	(2,383)	(42)
Asset derecognised (including final repayment)	7,941	1,179	3,696	12,816
Changes to risk parameters (model inputs)	10,389	(91)	(2,491)	7,807
Asset written off	—	—	20,537	20,537
Ending balance	(9,364)	(5,013)	(5,519)	(19,896)

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

18 CONTRACT ASSETS (Continued)

Movement of ECL allowance (Continued)

ECL allowance	Year ended December 31, 2019 Stage 1 *RMB'000*	 Stage 2 *RMB'000*	 Stage 3 *RMB'000*	 Total *RMB'000*
ECL charge for the period	**(44,478)**	**(34,317)**	**(67,274)**	**(146,069)**

ECL allowance	Year ended December 31, 2018 Stage 1 *RMB'000*	 Stage 2 *RMB'000*	 Stage 3 *RMB'000*	 Total *RMB'000*
ECL charge for the period	4,373	(1,526)	(20,140)	(17,293)

Note: The Group receives upfront payments from borrowers at loan inception and subsequent payments over the term of the loan. Contract asset represents the Group's right to consideration in exchange for services that the Group has provided. A substantial majority of the Group's contract assets as at December 31, 2019 would be realized within the next 12 months as the weighted average term of the arrangements where the Group is not the loan originator were less than 12 months. The Group determined there is no significant financing component for its arrangements where the Group is not the loan originator.

19 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES

	As at December 31, 2019 *RMB'000*	 2018 *RMB'000*
Guarantee receivables	**760,973**	235,934
Less: ECL allowance	**(139,725)**	(29,788)
	621,248	206,146

A summary of the Group's guarantee receivables movement for the year ended December 31, 2019 and 2018 is presented below:

	Year ended December 31, 2019 *RMB'000*	 2018 *RMB'000*
Guarantee receivables		
Opening balance	**206,146**	130,073
Changes on initial application of IFRS 9	**N/A**	(15,209)
Addition arising from new business	**1,426,080**	430,777
ECL	**(165,586)**	(35,998)
Reversal due to early repayment	**(80,384)**	(50,172)
Payment received from borrowers	**(765,008)**	(253,325)
Ending balance	**621,248**	206,146

19 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (Continued)

Movement of gross carrying amount

Guarantee receivables	**Year ended December 31, 2019**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Opening balance at January 1, 2019	**216,453**	**9,077**	**10,404**	**235,934**
New financial assets originated or purchased	**766,796**	**—**	**—**	**766,796**
Transfer for the year:				
From stage 1 to stage 2	**(40,247)**	**40,247**	**—**	**—**
From stage 1 to stage 3	**(72,809)**	**—**	**72,809**	**—**
From stage 2 to stage 3	**—**	**(8,696)**	**8,696**	**—**
Asset derecognised (including final repayment)	**(187,925)**	**(405)**	**(10,891)**	**(199,221)**
Asset written off	**—**	**—**	**(42,536)**	**(42,536)**
Ending balance	**682,268**	**40,223**	**38,482**	**760,973**

Guarantee receivables	Year ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Opening balance at January 1, 2018	127,833	2,601	2,704	133,138
New financial assets originated or purchased	232,574	—	—	232,574
Transfer for the year:				
From stage 1 to stage 2	(9,077)	9,077	—	—
From stage 1 to stage 3	(25,439)	—	25,439	—
From stage 2 to stage 1	1	(1)	—	—
From stage 2 to stage 3	—	(2,464)	2,464	—
Asset derecognised (including final repayment)	(109,439)	(136)	(31)	(109,606)
Asset written off	—	—	(20,172)	(20,172)
Ending balance	216,453	9,077	10,404	235,934

19 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (Continued)

Movement of ECL allowance

ECL allowance	**Year ended December 31, 2019** Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
Opening balance at January 1, 2019	**(11,419)**	**(8,302)**	**(10,067)**	**(29,788)**
New financial assets originated or purchased	**(56,786)**	**—**	**—**	**(56,786)**
Transfer for the year:				
From stage 1 to stage 2	**2,981**	**(36,749)**	**—**	**(33,768)**
From stage 1 to stage 3	**5,392**	**—**	**(70,082)**	**(64,690)**
From stage 2 to stage 3	**—**	**7,940**	**(8,370)**	**(430)**
Asset derecognised (including final repayment)	**13,021**	**370**	**10,483**	**23,874**
Changes to risk parameters (model inputs)	**(19,404)**	**76**	**(1,345)**	**(20,673)**
Asset written off	**—**	**—**	**42,536**	**42,536**
Ending balance	**(66,215)**	**(36,665)**	**(36,845)**	**(139,725)**

ECL allowance	Year ended December 31, 2018 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
Opening balance at January 1, 2018	(13,555)	(2,281)	(2,438)	(18,274)
New financial assets originated or purchased	(18,464)	—	—	(18,464)
Transfer for the year:				
From stage 1 to stage 2	721	(8,132)	—	(7,411)
From stage 1 to stage 3	2,020	—	(23,778)	(21,758)
From stage 2 to stage 1	—	1	—	1
From stage 2 to stage 3	—	2,208	(2,303)	(95)
Asset derecognised (including final repayment)	8,689	122	29	8,840
Changes to risk parameters (model inputs)	9,170	(220)	(1,749)	7,201
Asset written off	—	—	20,172	20,172
Ending balance	(11,419)	(8,302)	(10,067)	(29,788)

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

19 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (Continued)

Movement of ECL allowance (Continued)

ECL allowance	Year ended December 31, 2019 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
ECL Income statement charge for the period	(54,796)	(28,363)	(82,427)	(165,586)

ECL allowance	Year ended December 31, 2018 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
ECL Income statement charge for the period	2,136	(6,021)	(32,113)	(35,998)

A summary of the Group's guarantee liabilities movement for the year ended December 31, 2019 and 2018 is presented below:

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Guarantee liabilities		
Opening balance	204,496	169,553
Changes on initial application of IFRS 9	N/A	65,299
Addition arising from new business	1,426,080	430,777
Release of the margin	(99,793)	(27,459)
ECL	337,790	137,723
Payouts during the year, net	(1,144,956)	(571,397)
Ending balance	723,617	204,496

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31, 2019 RMB'000	2018 RMB'000
Money market fund	280	—

21 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Set out below are the associates of the Group which, in the opinion of the directors, are material to the Group. The entities listed below have share capital consisting solely of ordinary shares, which is held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Investment date
Apass Holdings Company Limited	BVI	40.00	(i)	June 14, 2016
Shanghai COSCO Shipping Small Loan Co., Ltd	PRC	10.00	(ii)	December 28, 2017

(i) The Group invested in Apass Holdings Company Limited as a 40.00% shareholder for a consideration of HK$20,000,000. Apass Holdings Company Limited is a holding company controls an operational company in the PRC that provides data development services.

Key financial information of Apass Holdings Company Limited are listed below:

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Assets	**46,500**	23,493
Equity	**41,332**	18,041
Net profit/(losses)	**23,156**	(10,795)

(ii) The Group invested in Shanghai COSCO Shipping Small Loan Co., Ltd. as a 10.00% shareholder for a consideration of RMB20,000,000. There are six members on the board of directors, of which one board member was appointed by the Group.

Key financial information of Shanghai COSCO Shipping Small Loan Co., Ltd. are listed below:

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Assets	**208,254**	204,872
Equity	**203,466**	200,060
Net profit	**3,406**	60

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

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Balance at beginning of the year	**27,684**	30,784
Share of net profit/(loss)	**9,962**	(2,900)
Translation difference	**(216)**	(200)
Balance at end of the year	**37,430**	27,684

22 DEFERRED INCOME TAX

	As at December 31,			
	2019		2018	
	Deductible/ (taxable) temporary differences	**Deferred income tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Deferred income tax liabilities				
Unrealized gains	**(1,439,867)**	**(299,103)**	(1,296,748)	(289,600)
Others	**(2,756)**	**(689)**	(2,756)	(689)
	(1,442,623)	**(299,792)**	(1,299,504)	(290,289)
Deferred income tax assets				
ECL allowance	**475,308**	**118,827**	165,836	41,459
Fair value change of loan to customers	**2,285,951**	**563,120**	2,375,424	578,094
Others	**—**	**—**	40,791	6,119
	2,761,259	**681,947**	2,582,051	625,672
Net deferred income tax assets	**1,318,636**	**382,155**	1,282,547	335,383

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

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Deferred income tax assets	**468,256**	413,117
Deferred income tax liabilities	**(86,101)**	(77,734)
Net deferred income tax assets	**382,155**	335,383

22 DEFERRED INCOME TAX (continued)

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

	ECL allowance *RMB'000*	Fair value change *RMB'000*	Unrealized gains *RMB'000*	Others *RMB'000*	Total *RMB'000*
As at January 1, 2019	**41,459**	**578,094**	**(289,600)**	**5,430**	**335,383**
Adjustment on adoption of IFRS 16	**—**	**—**	**—**	**476**	**476**
Restated balance as at January 1, 2019	**41,459**	**578,094**	**(289,600)**	**5,906**	**335,859**
Recognized in the profit or loss	**77,368**	**(14,974)**	**(9,503)**	**(6,595)**	**46,296**
As at December 31, 2019	**118,827**	**563,120**	**(299,103)**	**(689)**	**382,155**
As at January 1, 2018	489,703	—	(338,500)	6,343	157,546
Adjustment on adoption of IFRS 9	(461,823)	532,951	—	—	71,128
Restated balance as at January 1, 2018	27,880	532,951	(338,500)	6,343	228,674
Recognized in the profit or loss	13,579	45,143	48,900	(913)	106,709
As at December 31, 2018	41,459	578,094	(289,600)	5,430	335,383

Deferred income tax assets are recognized for tax losses carrying forwards and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. As at December 31, 2019, the Group did not recognise deferred income tax liabilities in respect of tax losses and deductible temporary differences of approximately RMB1,273,000, respectively (As at December 31, 2018: RMB13,419,000).

23 LEASES

(a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	As at December 31, 2019 *RMB'000*	As at January 1, 2019 *RMB'000*
Right-of-use assets		
Buildings	25,824	49,336
Lease liabilities	25,197	49,179

Addition to the right-of-use assets during the year ended December 31, 2019 were RMB16,772,000. For adjustments recognised on adoption of IFRS 16 on January 1 2019, please refer to Note 2.2.

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Year ended December 31,	
	2019 *RMB'000*	2018 *RMB'000*
Depreciation charge of right-of-use assets		
Buildings	34,702	N/A
Interest expense (included in other losses)	2,548	N/A
Expense relating to leases of low-value assets (included in origination and servicing expenses; general and administrative expenses; research and development expenses; sales and marketing expenses)	5,631	N/A

The total cash outflow for leases in 2019 was RMB36,768,000.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

24 INTANGIBLE ASSETS

	Software *RMB'000*
Cost	
As at January 1, 2019	**24,268**
Additions	**8,114**
As at December 31, 2019	**32,382**
Accumulated amortisation	
As at January 1, 2019	**(7,454)**
Amortisation charge for the year	**(2,753)**
As at December 31, 2019	**(10,207)**
Net book value	
As at December 31, 2019	**22,175**
Cost	
As at January 1, 2018	24,086
Additions	5,865
Disposals	(5,683)
As at December 31, 2018	24,268
Accumulated amortisation	
As at January 1, 2018	(10,598)
Amortisation charge for the year	(2,539)
Disposals	5,683
As at December 31, 2018	(7,454)
Net book value	
As at December 31, 2018	16,814

There is no indication that intangible assets have suffered an impairment loss during the year ended December 31, 2019.

25 PROPERTY AND EQUIPMENT

	Flats *RMB'000*	Furniture and office equipment *RMB'000*	Motor vehicles *RMB'000*	Electronic equipment *RMB'000*	Leasehold improvements *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost							
As at January 1, 2019	11,934	4,350	6,415	56,653	30,038	752	110,142
Additions	—	—	851	15,493	—	3,560	19,904
Disposals	—	(819)	(595)	(3,706)	(1,164)	—	(6,284)
Transfers	—	—	—	—	3,959	(3,959)	—
Foreign currency translation reserve	—	—	42	—	42	—	84
As at December 31, 2019	11,934	3,531	6,713	68,440	32,875	353	123,846
Accumulated depreciation							
As at January 1, 2019	(2,485)	(1,876)	(3,935)	(28,685)	(14,095)	—	(51,076)
Depreciation charge for the year	(597)	(744)	(887)	(15,927)	(9,603)	—	(27,758)
Disposals	—	767	567	3,706	1,164	—	6,204
Foreign currency translation reserve	—	—	(17)	—	(3)	—	(20)
As at December 31, 2019	(3,082)	(1,853)	(4,272)	(40,906)	(22,537)	—	(72,650)
Net book value							
As at December 31, 2019	8,852	1,678	2,441	27,534	10,338	353	51,196

25 PROPERTY AND EQUIPMENT (continued)

	Flats	Furniture and office equipment	Motor vehicles	Electronic equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
As at January 1, 2018	11,934	6,571	6,420	49,571	45,566	1,694	121,756
Additions	—	47	977	13,533	—	3,973	18,530
Disposals	—	(1,142)	(47)	(438)	(6,228)	—	(7,855)
Transfers	—	—	—	—	4,546	(4,546)	—
Disposal of subsidiaries	—	(1,126)	(1,053)	(6,013)	(13,855)	(369)	(22,416)
Foreign currency translation reserve	—	—	118	—	9	—	127
As at December 31, 2018	11,934	4,350	6,415	56,653	30,038	752	110,142
Accumulated depreciation							
As at January 1, 2018	(1,888)	(2,144)	(3,471)	(21,017)	(18,881)	—	(47,401)
Depreciation charge for the year	(597)	(1,009)	(1,124)	(13,499)	(12,662)	—	(28,891)
Disposals	—	380	47	370	6,227	—	7,024
Disposal of subsidiaries	—	897	658	5,461	11,229	—	18,245
Foreign currency translation reserve	—	—	(45)	—	(8)	—	(53)
As at December 31, 2018	(2,485)	(1,876)	(3,935)	(28,685)	(14,095)	—	(51,076)
Net book value							
As at December 31, 2018	9,449	2,474	2,480	27,968	15,943	752	59,066

There is no indication that property and equipment have suffered an impairment loss during the year ended December 31, 2019.

26 OTHER ASSETS

	As at December 31, 2019 RMB'000	2018 RMB'000
Security deposits in financial institutions	**333,523**	280,887
Due from business partners	**184,177**	314,710
Funds held in third party payment companies	**54,208**	80,319
Prepaid expense	**48,737**	53,564
Rental deposits	**8,061**	9,679
Other deposits and receivables	**21,026**	24,461
	649,732	763,620
Less: ECL allowance	**(1,585)**	(4,174)
	648,147	759,446

27 BORROWINGS

	As at December 31, 2019 RMB'000	2018 RMB'000
Payable to trust plan holders	**8,637,946**	6,952,645
Borrowings from corporations (i)	**598,383**	1,077,789
Borrowings from individuals	**—**	139,124
Secured borrowings	**—**	666
	9,236,329	8,170,224
Denominated in:		
RMB	**9,236,329**	7,838,730
HKD	**—**	313,820
USD	**—**	17,674
	9,236,329	8,170,224

(i) Borrowings from corporations were mainly from third-party companies. The interest rates of borrowings from corporations were 6.25%~12.00% which were close to the market interest rate. The terms of borrowings from corporations are mainly within 1 year.

27 BORROWINGS (continued)

27.1 Security of borrowings

	As at December 31, 2019 RMB'000	2018 RMB'000
Secured		
Secured borrowings	—	666
Unsecured		
Payable to trust plan holders	8,637,946	6,952,645
Borrowings from corporations	598,383	1,077,789
Borrowings from individuals	—	139,124
	9,236,329	8,169,558
Total borrowings	9,236,329	8,170,224

27.2 The following table sets forth the effective interest rates of borrowings

	As at December 31, 2019	2018
Payable to trust plan holders	6.80%~12.50%	7.03%~15.00%
Borrowings from corporations	6.25%~12.00%	6.25%~10.50%
Borrowings from individuals	—	10.00%
Secured borrowings	—	6.18%

27.3 Contractual maturities of borrowings

	As at December 31, 2019 RMB'000	2018 RMB'000
Within 1 year	3,721,399	4,054,230
Between 1 and 2 years	4,903,920	4,065,760
Between 2 and 5 years	611,010	50,234
	9,236,329	8,170,224

27.4 Borrowings by repayment schedule

	As at December 31, 2019 RMB'000	2018 RMB'000
Within 1 year	8,382,699	6,923,744
Between 1 and 2 years	626,210	1,196,910
Between 2 and 5 years	227,420	49,570
	9,236,329	8,170,224

28 SENIOR NOTES

On June 21, 2019, the Company issued 2-year senior notes with an aggregate principal amount of US$100 million on the Stock Exchange, which will mature on June 20, 2021, unless earlier redeemed pursuant to the terms thereof. The coupon rate of the senior notes is 11% per annum, payable semi-annually in arrears on June 20 and December 20 of each year, beginning on December 20, 2019. From the date of issuance, guarantees will be provided by Vision Credit Limited and Asia Jumbo Group Limited, which are wholly owned subsidiaries of the Company.

The Notes are senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes. The Notes are at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of the Company. The Notes are also guaranteed by certain subsidiaries of the Company on a senior basis, subject to certain limitations, but they are effectively subordinated to all existing and future obligations of the subsidiaries of the Company which are not providing guarantees, and to all existing and future secured obligations of the Company to the extent of the collateral securing such obligations.

VCREDIT N2106 (Code: 5064)	***RMB'000***
As at December 31, 2018	**—**
Issuance	**660,602**
Accrued interest	**40,222**
Discount amortization	**6,630**
Interest expense paid	**(37,941)**
Exchange loss	**9,316**
As at December 31, 2019	**678,829**

29 OTHER LIABILITIES

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Other payables (i)	**313,197**	304,602
Contract liabilities (ii)	**849**	50,492
	314,046	355,094

29 OTHER LIABILITIES (continued)

(i) Other payables

	As at December 31, 2019 RMB'000	2018 RMB'000
Accrued service fees	**157,851**	97,929
Due to financial institutions	**102,800**	81,636
Deposits collected from borrowers	**32,849**	85,181
Employee benefit liability	**13,932**	11,615
Due to related parties	**—**	752
Others	**5,765**	27,489
	313,197	304,602

(ii) Contract liabilities

The contract liabilities as at December 31, 2019 are all membership fees received in advance (December 31, 2018: the same).

30 SHARE CAPITAL AND SHARE PREMIUM

	Number of Ordinary shares *Shares'000*	Share capital *RMB'000*	Share premium *RMB'000*
At January 1, 2019	**499,487**	**40,938**	**5,581,926**
Issuance of ordinary shares to employees *(Note 33)*	**277**	**25**	**2,122**
Shares repurchased and cancelled	**(561)**	**(50)**	**(3,032)**
At December 31, 2019	**499,203**	**40,913**	**5,581,016**
At January 1, 2018	180,705	394,462	—
Changes on initial application of par value	—	(379,823)	379,823
Shares issued upon Initial Public Offering	72,382	5,982	1,145,200
Conversion of preferred shares to ordinary shares	248,027	20,460	4,071,483
Issuance of ordinary shares to employees *(Note 33)*	133	12	1,000
Shares repurchased and cancelled	(1,760)	(155)	(15,580)
At December 31, 2018	499,487	40,938	5,581,926

31 TREASURY SHARES

	As at December 31, 2019		As at December 31, 2018	
	Shares'000	*RMB'000*	*Shares'000*	*RMB'000*
Treasury shares held under share award scheme	(6,530)	(51,774)	—	—

These shares are held by the VCREDIT No. 1 Share Award Scheme Trust for the purpose of share award scheme mentioned in Note 33.

Movements in treasury shares in 2019 are as follows:

	Year ended December 31,			
	2019		2018	
	Shares'000	*RMB'000*	*Shares'000*	*RMB'000*
Opening balance	—	—	—	—
Acquisition of shares by the VCREDIT No. 1 Share Award Scheme Trust	(6,530)	(51,774)	—	—
Ending balance	(6,530)	(51,774)	—	—

32 RESERVES

	Share option reserves *RMB'000*	Translation reserve *RMB'000*	Other reserves *RMB'000*	Total *RMB'000*
As at January 1, 2019	304,945	75,510	—	380,455
Changes on initial application of IFRS 16 *(Note 2.2)*	—	—	—	—
Restated balance as at January 1, 2019	304,945	75,510	—	380,455
Currency translation differences	—	(485)	—	(485)
Issuance of ordinary shares to employees	(475)	—	—	(475)
Share-based payment *(Note 9)*	303,418	—	—	303,418
As at December 31, 2019	607,888	75,025	—	682,913

32 RESERVES (Continued)

	Share option reserves *RMB'000*	Translation reserve *RMB'000*	Other reserves *RMB'000*	Total *RMB'000*
As at January 1, 2018	29,546	31,405	—	60,951
Changes on initial application of IFRS 9	—	—	(47,055)	(47,055)
Restated balance as at January 1, 2018	29,546	31,405	(47,055)	13,896
Currency translation differences	—	44,105	—	44,105
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss	—	—	(14,109)	(14,109)
Conversion of preferred shares to ordinary shares	—	—	61,164	61,164
Issuance of ordinary shares to employees	(211)	—	—	(211)
Share-based payment *(Note 9)*	275,610	—	—	275,610
As at 1 December 31, 2018	304,945	75,510	—	380,455

33 SHARE-BASED PAYMENTS

Pre-IPO share option schemes

The Board approved the establishment of three pre-IPO share option schemes respectively on March 1, 2016 (the "**2016 ESOP**") and March 1, 2018 (the "**2017 ESOP I**" and the "**2017 ESOP II**", together with the 2016 ESOP, the "**Pre-IPO Share Option Schemes**"). The purpose of the Pre-IPO Share Option Schemes is to provide an incentive for the key employees, directors and consultants of the Group or such other employees to continue and improve their services with the Group and to improve the operating efficiency of the Group. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The overall limits on the number of underlying shares which may be issued pursuant to each of the Pre-IPO Share Option Schemes are shown in the table below.

Pre-IPO Share Option Schemes	**Number of shares issuable under each pre-IPO Share Option Scheme**
2016 ESOP	20,932,502
2017 ESOP I	46,516,997
2017 ESOP II	158,507,724

33 SHARE-BASED PAYMENTS (Continued)

Pre-IPO share option schemes (Continued)

The granted share options have a contractual maximum option period of five years and the exercise prices are US$0.8735, US$1.6123 and US$1.6123 per share for 2016 ESOP, 2017 ESOP I and 2017 ESOP II, respectively.

Except as provided otherwise in the grant letters or offered in any other form by the Board, the vesting dates and proportion of shares that will vest on each vesting date are shown in the table below.

	Vesting date	Proportion of shares
2016 ESOP	December 31, 2016	One-third
	December 31, 2017	One-third
	December 31, 2018	One-third
2017 ESOP I and 2017 ESOP II	May 9, 2019	One-third
	May 9, 2020	One-third
	May 9, 2021	One-third

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

	Exercise price in USD per share option			Number of share options ('000)		
	2016 ESOP	2017 ESOP I	2017 ESOP II	2016 ESOP	2017 ESOP I	2017 ESOP II
Outstanding balance as at January 1, 2019	**0.8735**	**1.6123**	**1.6123**	**20,800**	**46,517**	**26,115**
Lapsed	**0.8735**	**—**	**—**	**(3,658)**	**—**	**—**
Exercised (i)	**0.8735**	**—**	**—**	**(277)**	**—**	**—**
Outstanding balance as at December 31, 2019	**0.8735**	**1.6123**	**1.6123**	**16,865**	**46,517**	**26,115**

	Exercise price in USD per share option			Number of share options ('000)		
	2016 ESOP	2017 ESOP I	2017 ESOP II (ii)	2016 ESOP	2017 ESOP I	2017 ESOP II (ii)
Outstanding balance as at January 1, 2018	0.8735	—	—	20,933	—	—
Granted	—	1.6123	1.6123	—	46,517	158,508
Lapsed	—	—	—	—	—	(132,393)
Exercised	0.8735	—	—	(133)	—	—
Outstanding balance as at December 31, 2018	0.8735	1.6123	1.6123	20,800	46,517	26,115

33 SHARE-BASED PAYMENTS (Continued)

Pre-IPO share option schemes (Continued)

(i) For the year ended December 31, 2019, the proceeds of RMB25,000 (2018: RMB12,000) arising from the exercise of share options are credited to share capital.

(ii) Share options granted under the 2017 ESOP II are divided into three tranches, being Series A, Series B and Series C options, representing a total of 26,114,819 Shares, 29,016,466 Shares and 103,376,439 Shares, respectively. Each tranche of the options granted under the 2017 ESOP II shall vest upon the pre-listing market capitalization of the Group, immediately prior to listing of the Group on June 21, 2018 ("**Listing**"), meeting specified thresholds. Series A, series B and series C options shall vest if the pre-listing market capitalization of the Group immediately prior to Listing exceeds US$1.2 billion, US$1.6 billion and US$2.4 billion respectively. Such pre-listing market capitalization is calculated with reference to, among other things, the final offer price of the shares in the listing ("**Offer Shares**"), the number of Shares in issue and the number of Shares to be issued pursuant to the exercise of the 2016 ESOP and 2017 ESOP I. Based on the offer price of HK$20.00 per Offer Share, the Series B and Series C options granted pursuant to the 2017 ESOP II lapsed upon Listing.

Fair value of share options granted under the Pre-IPO share option schemes

The Group estimated the risk-free interest rate based on the yield of US treasury bonds with a maturity life equal to the option life of the share option. Volatility was estimated at the grant date based on average of historical volatilities of comparable companies with terms commensurate with the time to maturity of the share options. Dividend yield, exercise multiple and post-vesting forfeiture rate are based on management estimation at the grant date.

Based on fair value of the underlying ordinary share, the Group has used a binomial option-pricing model to determine the fair value of the share options as at the grant date. The weighted average fair values of 2017 ESOP I share options and 2017 ESOP II share options granted on May 2018 were US$0.5041 per share option. Key assumptions are set as below:

	May 2018
Option life (years)	5
Risk-free Interest rate	2.83%
Volatility	40.36%
Dividend yield	—

Share award scheme

On January 11, 2019, the Board approved a share award scheme, in which all employees (including without limitation any directors) of the Group will be entitled to participate. Pursuant to the scheme rules, shares will be acquired by the independent trustee from the market, at the cost of the Company and be held on trust for the selected participants until they vest. Vested shares will be transferred at no cost to the selected participants. The maximum number of shares to be awarded under the scheme throughout its duration is 24,974,369 shares.

The granted share awards have a contractual maximum vesting period of four years, one-fourth of shares will be vested each year.

33 SHARE-BASED PAYMENTS (Continued)

Fair value of share options granted under the Pre-IPO share option schemes (Continued)

Movement in the number of share awards for the year ended December 31, 2019 is as follows:

	Number of share awards *('000)*
Outstanding balance as at January 1, 2019	—
Granted	6,530
Outstanding balance as at December 31, 2019	6,530

The fair value of share awards at the grant dates, determined by reference to the market price of the ordinary share of the Company, is recognised over the vesting period as employee benefit expense.

34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

The Group has significant transactions with the following related parties for the year ended December 31, 2019.

(a) Names and relationships with related parties

Name	Relationship
Liu Sai Wang Stephen	Executive Director
Liu Sai Keung Thomas	Executive Director
Chen Penghui	Non-executive Director
Ma Ting Hung	Non-executive Director
Seek Ngee Huat	Non-executive Director
Wu Chak Man	Non-executive Director
Dong Ludwig	Former Director
Ma Ting Yiu	Brother of Ma Ting Hung
Mok Mei Hing	Spouse of Dong Ludwig

The following transactions were carried out between the Group and its related parties. In the opinion of the directors of the Company, the related party transactions were carried out in the ordinary course of business and on arm's length terms negotiated between the Group and the respective related parties.

34 RELATED PARTY TRANSACTIONS (Continued)

(b) Borrowings from related parties

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Borrowings from related parties	**—**	90,249

(c) Payable to related parties

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Due to related parties	**—**	752

The amounts of payables to related parties mentioned above are non-trade in nature.

(d) Transactions with related parties

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Interest expenses	**4,519**	20,210

(e) Key management personnel compensations

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services are shown below:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Director's fee	**5,737**	3,408
Wages, salaries and bonuses	**5,740**	4,257
Pension costs-defined contribution plan	**352**	50
Other social security costs, housing benefits and other employee benefits	**2,079**	1,825
Share-based compensation expenses	**254,150**	225,653
	268,058	235,193

34 RELATED PARTY TRANSACTIONS (Continued)

(f) Senior management's emoluments

The senior management's emoluments fell within the following bands:

	Year ended December 31, 2019	2018
Nil to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	1	—
HK$1,500,001 to HK$2,000,000	—	—
Over HK$2,000,000	6	5
	7	5

35 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation from profit/(loss) before income tax to cash generated from operating activities:

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Profit/(Loss) before income tax	164,331	(948,421)
Adjustments for:		
Fair value change of loans to customers	2,058,482	1,130,058
Credit impairment losses	309,101	54,348
Depreciation and amortization	65,213	31,430
Loss on disposal of property and equipment, intangible assets	80	831
Share of net (profit)/loss of associates accounted for using the equity method	(9,962)	2,900
Gain from financial assets at fair value through profit or loss	(1,781)	(1,360)
Fair value loss of convertible redeemable preferred shares	—	1,047,156
Share-based payment	303,418	275,610
Interest expenses	862,174	974,770
Listing expenses	—	49,870
Disposal gain	—	(35,589)
Changes in operating assets and liabilities:		
(Increase)/Decrease in loans to customers	(2,652,909)	1,473,151
Increase in contract assets and guarantee receivables	(1,095,636)	(184,661)
(Increase)/Decrease in other operating assets	(86,150)	3,410,070
Increase/(Decrease) in other operating liabilities	559,077	(3,950,218)
Cash generated from operating activities	475,438	3,329,945

35 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(b) Net Debt Reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**2,169,524**	1,050,112
Liquid investments (i)	**280**	—
Borrowings — repayable within one year (including overdraft)	**(8,382,699)**	(6,923,744)
Borrowings — repayable after one year	**(853,630)**	(1,246,480)
Senior notes	**(678,829)**	—
Lease liabilities	**(25,197)**	N/A
Net debt	**(7,770,551)**	(7,120,112)
Cash and liquid investments	**2,169,804**	1,050,112
Gross debt — fixed interest rates	**(9,940,355)**	(8,169,560)
Gross debt — variable interest rates	**—**	(664)
Net debt	**(7,770,551)**	(7,120,112)

(i) Liquid investments comprise current investments that are traded in an active market, being the Group's financial assets at fair value through profit or loss.

	Cash and cash equivalents *RMB'000*	Liquid investments *RMB'000*	Borrowings (non-current) *RMB'000*	Borrowings (current) *RMB'000*	Senior notes *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
As at December 31, 2018	1,050,112	—	(1,246,480)	(6,923,744)	—	N/A	(7,120,112)
Recognised on adoption of IFRS 16 *(Note 2.2)*	—	—	—	—	—	(49,179)	(49,179)
As at January 1, 2019	1,050,112	—	(1,246,480)	(6,923,744)	—	(49,179)	(7,169,291)
Foreign exchange adjustments	(57)	—	(9,643)	3,932	(9,316)	—	(15,084)
Cash flows	1,119,469	(1,501)	(1,341,377)	280,983	(622,661)	36,768	(528,319)
Other non-cash movements	—	1,781	1,743,870	(1,743,870)	(46,852)	(12,786)	(57,857)
As at December 31, 2019	2,169,524	280	(853,630)	(8,382,699)	(678,829)	(25,197)	(7,770,551)
As at January 1, 2018	568,196	110,545	(2,877,032)	(8,186,101)	—	N/A	(10,384,392)
Foreign exchange adjustments	(4,284)	—	(21,375)	(34,877)	—	N/A	(60,536)
Cash flows	486,200	(111,905)	(1,596,759)	4,545,920	—	N/A	3,323,456
Other non-cash movements	—	1,360	3,248,686	(3,248,686)	—	N/A	1,360
As at December 31, 2018	1,050,112	—	(1,246,480)	(6,923,744)	—	N/A	(7,120,112)

36 COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31, 2018 *RMB'000*
Within 1 year (inclusive)	46,963
1 to 2 years (inclusive)	17,140
More than 2 years	12,216
	76,319

Please refer to Note 2.2 for the impact on adoption of IFRS 16 in 2019.

37 DIVIDENDS

No dividend has been paid or declared by the Company or the companies now comprising the Group during the year ended December 31, 2019 (2018: Nil).

38 CONTINGENT LIABILITY

The Group did not have any contingent liability as at December 31, 2019 (December 31, 2018: Nil).

39 SUBSEQUENT EVENTS

Save as disclosed in the report, the following significant events took place subsequent to December 31, 2019:

Since early 2020, the outbreak of the novel coronavirus pneumonia ("**COVID-19 outbreak**") has spread across China and beyond, causing disruptions to business and economic activity. The Group will continue to monitor the development of the COVID-19 outbreak and market situation, assess its impact on the Group's operations and take measures to best protect the employees from being infected.

Furthermore, the ECL as at December 31, 2019 was estimated based on a range of forecast economic conditions as at that date. The impact on gross domestic product and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate under IFRS 9 in 2020.

40 COMPARATIVE FIGURES

Certain comparative figures have been reclassified, or restated, to conform to the current year's presentation.

41 STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

(a) Statement of financial position — the Company

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Assets		
Cash and cash equivalents	**47,199**	97
Investment in subsidiaries	**1,415,700**	1,377,309
Other assets	**2,155,722**	1,617,317
Total assets	**3,618,621**	2,994,723
Liabilities		
Senior notes	**678,829**	—
Total liabilities	**678,829**	—
Equity		
Share capital	**40,913**	40,938
Share premium	**5,581,016**	5,581,926
Treasury shares	**(51,774)**	—
Reserves	**934,183**	583,892
Accumulated losses	**(3,564,546)**	(3,212,033)
Total equity	**2,939,792**	2,994,723
Total liabilities and equity	**3,618,621**	2,994,723

The statement of financial position of the Company was approved by the Board of Directors on March 23, 2020 and was signed on its behalf by:

Ma Ting Hung	**Liu Sai Wang Stephen**
Director	*Director*

41 STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY (continued)

(b) Reserves movement of the Company

	Reserves *RMB'000*	Accumulated loss *RMB'000*
As at January 1, 2019	**583,892**	**(3,212,033)**
Loss for the year	**—**	**(352,513)**
Currency translation differences	**47,348**	**—**
Issuance of ordinary shares to employees	**(475)**	**—**
Share-based payment	**303,418**	**—**
As at December 31, 2019	**934,183**	**(3,564,546)**
As at January 1, 2018	80,895	(1,785,272)
Changes on initial application of IFRS 9	(47,055)	—
Restated balance as at January 1, 2018	33,840	(1,785,272)
Loss for the year	—	(1,365,597)
Currency translation differences	227,598	—
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss	(14,109)	—
Issuance of ordinary shares to employees	(211)	—
Conversion of preferred shares to ordinary shares	61,164	(61,164)
Share-based payment	275,610	—
As at December 31, 2018	583,892	(3,212,033)

To the Shareholders of VCREDIT Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of VCREDIT Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 66 to 177, which comprise:

- the consolidated statement of comprehensive income for the year ended December 31, 2018;
- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of changes in equity for the year ended December 31, 2018;
- the consolidated statement of cash flows for the year ended December 31, 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Measurement of fair value of loans to customers
- Measurement of expected credit losses
- Consolidation assessment of, and disclosures about, structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of fair value of loans to customers Please refer to the following notes to the consolidated financial statements: Notes 2.11, 3.2 and 17 As at December 31, 2018, the Group's fair value of loans to customers amounted to RMB8,863 million, and fair value loss of RMB1,130 million was recognized in the Group's consolidated statement of comprehensive income for the year ended December 31, 2018. The implementation of IFRS 9 requires the Group to make considerable judgements, assumptions, and interpretations of the standard and requires the use of discounted cash flow in the development of fair value models to estimate loans to customers. The method to determine discount rate for each loan is a significant management judgment. The fair value model of loans to customers implemented after application of IFRS 9 is a highly complex process and involved considerable assumptions and interpretations, and accordingly, we included this as a key audit matter.	Our procedures included: 1. We understood the relevant internal controls over the selection and approval of the accounting policies and fair value model methodologies; 2. We reviewed the modelling methodology for measurement of fair value of loans to customers, and assessed the reasonableness of the key parameters calculations, judgements and assumptions in relation to the models; 3. We reviewed the encoding for model measurement as a whole, tested whether or not the measurement models reflect the modelling methodology documented by the management, and examined the major data inputs to assess their accuracy and completeness; 4. We assessed whether the disclosures in the consolidated financial statements, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Group's exposure to valuation risk with reference to the requirements of the prevailing accounting standards. Based on the procedures we have performed, in the context of the inherent uncertainties associated with measurement of fair value of loans to customers, the models, the parameters and the key assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses Please refer to the following notes to the consolidated financial statements: Notes 2.11, 3.1, 12, 18 and 19 As at December 31, 2018, the Group's expected credit losses ("ECL") amounted to RMB54 million as disclosed in the Group's consolidated statements of comprehensive income. The implementation of IFRS 9 requires the Group to make considerable judgements, assumptions, and interpretations of the standard and requires the use of new parameters in the development of new models to estimate the impairment losses on its contract assets, guarantee receivables and guarantee liabilities using the expected credit losses concept. Significant management judgments and assumptions primarily included the following: (1) Determination of relevant key measurement parameters; (2) criteria for determining whether or not there was a significant increase in credit risk and definition of default; (3) economic variables for forward-looking measurement, and the application of economic scenarios and relative weightings The ECL model implemented after application of IFRS 9 is a highly complex process and involved significant management judgments and interpretations, and accordingly, we included this as a key audit matter.	Our procedures included: 1. We understood the relevant internal controls over the selection and approval of the accounting policies and ECL model methodologies; 2. We reviewed the modelling methodology for measurement of expected credit losses, and assessed the reasonableness of the key parameters calculations, judgements and assumptions in relation to the models. We examined the calculation for model measurement on selected samples and tested whether or not the measurement model reflects the modelling methodology documented by the management; 3. We reviewed the entry of key data inputs for the ECL models on selected samples, including historical data and data on the measurement date, to assess their completeness and accuracy; 4. We selected samples, taken into consideration of the overdue status of the borrowers, to assess the appropriateness of the management's determination of significant increase in credit risk of contract assets, guarantee receivables and guarantee liabilities; 5. We reviewed retrospective testing of the economic indicator forecasts used in the measurement of expected credit losses, and reviewed sensitivity testing of forecasting of forward-looking economic indicators, economic scenarios and weightings. Based on the procedures we have performed, in the context of the inherent uncertainties associated with a measurement of expected credit losses for contract assets, guarantee receivables and guarantee liabilities, the models, the parameters and the key assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation assessment of, and disclosures about, structured entities Please refer to the following notes to the consolidated financial statements: Notes 2.3.1(b) and 3.9 As at December 31, 2018, structured entities primarily included trust plans. The Group's consolidated structured entities amounted to 9.3 billion as disclosed in Note 2.3. The amount of structured entities was significant and the assessment of consolidation or not involved management's judgement. Management had determined that the Group had control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. The significant judgement exercised by management in assessing whether the Group had control of structured entities and the amount of such structured entities resulted in this matter being identified as a key audit matter.	Our audit procedures included: 1. We understood related internal controls that management adopted on the consolidation assessment of structured entities; 2. We analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities; 3. We inspected contract terms related to the Group's variable returns from these selected structured entities, including service fee, guarantee premium and expected residual returns, and agreed this information to the corresponding inputs used in management's assessment; 4. We assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its services provided to the structured entities, and compared our assessment results with management's assessment outcomes; 5. We evaluated and checked the appropriateness of disclosures in the consolidated financial statements relating to structured entities. Based on the procedures we have performed, management's consolidation assessment in relation to structured entities was reasonable and the disclosures were appropriate.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Kam Chin.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 25, 2019

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2018

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Continuing operations			
Interest type income	5	**2,930,339**	N/A
Interest income	5	**N/A**	3,254,516
Less: interest expenses		**(974,770)**	(918,226)
Net interest type income		**1,955,569**	N/A
Net interest income		**N/A**	2,336,290
Loan facilitation service fees	6	**269,832**	83,916
Other income	7	**511,182**	286,176
Total Income		**2,736,583**	2,706,382
Origination and servicing expenses	8	**(684,580)**	(607,614)
Sales and marketing expenses	8	**(206,218)**	(68,963)
General and administrative expenses	8	**(503,269)**	(181,747)
Research and development expenses	8	**(74,058)**	(74,379)
Credit impairment losses/Impairment losses	12	**(54,348)**	(1,417,439)
Fair value change of loans to customers		**(1,130,058)**	N/A
Other gains/(losses), net	13	**17,583**	(8,840)
Operating profit		**101,635**	347,400
Share of net loss of associates accounted for using the equity method	21	**(2,900)**	(6,368)
Fair value loss of convertible redeemable preferred shares	27	**(1,047,156)**	(1,285,496)
Loss before income tax		**(948,421)**	(944,464)
Income tax expense	14	**(78,532)**	(58,669)
Loss for the year attributable to owners of the company		**(1,026,953)**	(1,003,133)

For the year ended December 31, 2018

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange difference on translation of financial statements		**44,105**	171,373
Items that will not be reclassified to profit or loss			
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss		**(14,109)**	N/A
Total comprehensive loss for the year attributable to owners of the company, net of tax		**(996,957)**	(831,760)
Loss per share for the loss from continuing operations attributable to owners of the company (expressed in RMB yuan per share)			
Basic loss per share	15	**(2.93)**	(6.96)
Diluted loss per share	15	**(2.93)**	(6.96)

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

Consolidated Statement of Financial Position

As at December 31, 2018

	Note	As at December 31, 2018 RMB'000	2017 RMB'000
Assets			
Cash and cash equivalents	16(a)	**1,050,111**	568,196
Restricted cash	16(b)	**127,902**	143,570
Loans to customers at amortised cost	17	**—**	11,479,696
Loans to customers at fair value through profit or loss	17	**8,863,246**	N/A
Contract assets	18	**154,143**	98,845
Guarantee receivables	19	**206,146**	130,073
Financial assets at fair value through profit or loss	20	**—**	110,545
Investments accounted for using the equity method	21	**27,684**	30,784
Deferred income tax assets	22	**413,117**	279,860
Intangible assets	23	**16,814**	13,488
Property and equipment	24	**59,066**	74,355
Other assets	25	**759,446**	507,596
Total assets		**11,677,675**	13,437,008
Liabilities			
Borrowings	26	**8,131,276**	11,063,133
Guarantee liabilities	19	**204,496**	169,553
Tax payable		**85,400**	108,338
Deferred income tax liabilities	22	**77,734**	122,314
Convertible redeemable preferred shares	27	**—**	3,042,173
Other liabilities	28	**394,042**	440,107
Total liabilities		**8,892,948**	14,945,618
Equity/(Deficit)			
Share capital	29	**40,938**	394,462
Share premium	29	**5,581,926**	—
Reserves	30	**380,455**	60,951
Accumulated deficit		**(3,218,592)**	(1,964,023)
Total equity/(deficit)		**2,784,727**	(1,508,610)
Total liabilities and equity		**11,677,675**	13,437,008

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

The financial statements on pages 66 to 177 were approved by the Board of Directors on March 25, 2019 and were signed on its behalf

Ma Ting Hung
Director

Liu Sai Wang Stephen
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

	Attributable to equity holders of the Company				
		Reserves			
	Share capital *RMB'000*	Share Option Reserves *RMB'000*	Translation Reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at January 1, 2017	257,985	33,321	(139,968)	(960,890)	(809,552)
Loss for the year	—	—	—	(1,003,133)	(1,003,133)
Exchange difference on translation of financial statements	—	—	171,373	—	171,373
Total comprehensive loss for the period	—	—	171,373	(1,003,133)	(831,760)
Transactions with owners in their capacity as owners					
Share-based payment	—	10,126	—	—	10,126
Issuance of ordinary shares to employees *(Note 31)*	136,477	(13,901)	—	—	122,576
Total transactions with owners in their capacity as owners	136,477	(3,775)	—	—	132,702
Balance at December 31, 2017	394,462	29,546	31,405	(1,964,023)	(1,508,610)

For the year ended December 31, 2018

	Attributable to equity holders of the Company						
			Reserves				
	Share capital *RMB'000*	Share premium *RMB'000*	Share Option Reserves *RMB'000*	Translation Reserve *RMB'000*	Other Reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at January 1, 2018	394,462	—	29,546	31,405	—	(1,964,023)	(1,508,610)
Changes on initial application of IFRS 9 *(Note 2.2)*	—	—	—	—	(47,055)	(166,452)	(213,507)
Restated balance at January 1, 2018	394,462	—	29,546	31,405	(47,055)	(2,130,475)	(1,722,117)
Loss for the year	—	—	—	—	—	(1,026,953)	(1,026,953)
Exchange difference on translation of financial statements	—	—	—	44,105	—	—	44,105
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss	—	—	—	—	(14,109)	—	(14,109)
Total comprehensive loss for the year	—	—	—	44,105	(14,109)	(1,026,953)	(996,957)
Transactions with owners in their capacity as owners							
Changes on initial application of par value	(379,823)	379,823	—	—	—	—	—
Issuance of ordinary shares relating to initial public offering and over-allotment, net of underwriting commissions and other issuance costs	5,982	1,145,200	—	—	—	—	1,151,182
Conversion of preferred shares to ordinary shares	20,460	4,071,483	—	—	61,164	(61,164)	4,091,943
Shares repurchased and cancelled	(155)	(15,580)	—	—	—	—	(15,735)
Issuance of ordinary shares to employees (Note 31)	12	1,000	(211)	—	—	—	801
Share-based payment	—	—	275,610	—	—	—	275,610
Total transactions with owners in their capacity as owners	(353,524)	5,581,926	275,399	—	61,164	(61,164)	5,503,801
Balance at December 31, 2018	40,938	5,581,926	304,945	75,510	—	(3,218,592)	2,784,727

The above consolidated statement of changes in equity should be read in conjunction with the accompany notes.

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Operating activities			
Cash generated from/(used in) operating activities	*33(a)*	**3,329,945**	(4,130,495)
Income tax paid		**(201,706)**	(32,984)
Net cash inflow/(outflow) from operating activities		**3,128,239**	(4,163,479)
Investing activities			
Payments for property and equipment		**(14,557)**	(39,899)
Payments for intangible assets		**(5,865)**	(5,229)
Payments for construction in progress		**(3,973)**	(14,899)
Payments for acquisition of associates		**—**	(20,000)
Payments for financial assets at fair value through profit or loss	*33(b)*	**(120,000)**	(110,000)
Proceeds from disposal of financial assets at fair value through profit or loss	*33(b)*	**231,905**	—
Proceeds from disposal of subsidiaries, net of cash disposed		**8,425**	—
Dividends from disposed subsidiaries		**27,500**	—
Net cash inflow/(outflow) from investing activities		**123,435**	(190,027)

For the year ended December 31, 2018

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Financing activities			
Proceeds from issuance of convertible redeemable preferred shares		—	332,464
Proceeds from borrowings	33(b)	280,296	1,321,369
Cash received from trust plans holders	33(b)	6,537,995	8,088,745
Proceeds from issuance of ordinary shares to employees		123,376	—
Proceeds from issuance of ordinary shares relating to the initial public offering and over-allotment, net of underwriting commissions and other issuance costs		1,157,300	—
Interest expenses paid		(978,218)	(890,994)
Repayment of borrowings	33(b)	(776,146)	(708,515)
Cash paid to trust plans holders	33(b)	(9,030,254)	(3,492,683)
Cash paid to asset management plans holders	33(b)	—	(16,184)
Payment for shares repurchased		(15,735)	—
Payment of listing expenses		(64,088)	—
Net cash (outflow)/inflow from financing activities		(2,765,474)	4,634,202
Net increase in cash and cash equivalents		486,200	280,696
Cash and cash equivalents at the beginning of the financial year		568,196	289,889
Effects of exchange rate changes on cash and cash equivalents		(4,284)	(2,389)
Cash and cash equivalents at end of the year		1,050,112	568,196

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

1 General information

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

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

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

The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since June 21, 2018 by way of its initial public offering ("**IPO**"). Upon the completion of the IPO, all of the Company's outstanding convertible redeemable preferred shares were converted into the Company's ordinary shares on a one-to-one basis. As at December 31, 2018, the number of ordinary shares in issue is 499,487,389, with a par value of HK$0.1 per share.

On October 10, 2018, the Group disposed of Hangzhou Vision Financial Servicing Co., Ltd. and its subsidiary, Hangzhou Vision Information Technology Co. Ltd., which operate the online-to-offline business platforms of the Group. A consideration of RMB11,750,000 was received by the Group upon this transaction. The Group will focus on pure online products in the future.

This consolidated financial information is presented in Renminbi ("**RMB**"), unless otherwise stated.

This consolidated financial information has been approved and authorised for issue by the Board of Directors ("**Board**") of the Company on March 25, 2019.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3 below.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018:

- IFRS 9 Financial Instruments
- Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
- Annual Improvements 2014-2016 cycle
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group had elected to adopt the following amendments early from the year ended December 31, 2015:

- IFRS 15 Revenue from Contracts with Customers

The Group had to change its accounting policies following the adoption of IFRS 9, which is disclosed in Note 2.2. The other amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16: Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) ***New standards and interpretations not yet adopted*** (Continued)

IFRS 16: Leases (Continued)

Impact

The Group is a lessee of various offices, which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in Note 2.28 under which operating lease payment is accounted for in the consolidated statements of comprehensive income when incurred and the Group's future operating lease commitments are not reflected in the consolidated statements of financial position but are disclosed in Note 34. IFRS 16 provides new provisions for the accounting treatment of leases and all long-term leases, including future operating lease commitments, must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation).

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of approximately RMB76,319,000, see Note 34. Of these commitments, there are short-term leases of approximately RMB4,013,000 which will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB50,871,000 on January 1, 2019, lease liabilities of RMB51,249,000 (after adjustments for prepayments and accrued lease payments recognised as at December 31, 2018) and deferred tax assets of RMB14,000. Overall net assets will be RMB364,000 lower.

The Group expects that net profit after tax will increase by RMB792,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately RMB42,950,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) New standards and interpretations not yet adopted (Continued)

IFRS 16: Leases (Continued)

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured on transition as if the new rules had always been applied.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies and disclosures

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening accumulated losses and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 ‘Financial Instruments: Disclosures’.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in Note 2.2 below.

2 Summary of significant accounting policies (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(a) Classification and measurement of financial instruments

	IAS 39		IFRS 9	
	Measurement Category	**Carrying Amount** *RMB'000*	**Measurement Category**	**Carrying Amount** *RMB'000*
Financial assets				
Cash and cash equivalents	Amortised cost	568,196	Amortised cost	568,192
Restricted cash	Amortised cost	143,570	Amortised cost	143,550
Loans to customers	Amortised cost	11,479,696	FVPL*(Mandatory)	11,283,783
Guarantee receivables	Amortised cost	130,073	Amortised cost	114,864
Financial assets at fair value through profit or loss	FVPL*Designated	110,545	FVPL*(Mandatory)	110,545

* Fair value through profit or loss (FVPL)

There were no changes to the classification and measurement of financial liabilities.

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

	December 31, 2017 *RMB'000*	**Reclassifications** *RMB'000*	**Remeasurements** *RMB'000*	**January 1, 2018** *RMB'000*
Financial assets				
Cash and cash equivalents	568,196	—	(4)	568,192
Restricted cash	143,570	—	(20)	143,550
Loans to customers at amortised cost	11,479,696	(11,479,696)	—	—
Loans to customers at fair value through profit or loss	N/A	11,478,005	(194,222)	11,283,783
Guarantee receivables	130,073	—	(15,209)	114,864
Financial assets at fair value through profit or loss	110,545	—	—	110,545
Other assets	450,933	—	5,109	456,042
Subtotal	12,883,013	(1,691)	(204,346)	12,676,976

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(b) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9* (Continued)

	December 31, 2017 RMB'000	Reclassifications RMB'000	Remeasurements RMB'000	January 1, 2018 RMB'000
Non-financial assets				
Contract assets	98,845	—	(14,990)	83,855
Deferred income tax assets	279,860	—	71,128	350,988
Other non-financial assets	175,290	—	—	175,290
Subtotal	553,995	—	56,138	610,133
Total assets	13,437,008	(1,691)	(148,208)	13,287,109
Financial liabilities				
Borrowings	11,063,133	—	—	11,063,133
Guarantee liabilities	169,553	—	65,299	234,852
Convertible redeemable preferred shares	3,042,173	—	—	3,042,173
Other liabilities — Others	182,896	(1,691)	—	181,205
Subtotal	14,457,755	(1,691)	65,299	14,521,363
Non-financial liabilities				
Other non-financial liabilities	487,863	—	—	487,863
Subtotal	487,863	—	—	487,863
Total liabilities	14,945,618	(1,691)	65,299	15,009,226
Share capital	394,462	—	—	394,462
Reserves	60,951	—	(47,055)	13,896
Accumulated losses	(1,964,023)	—	(166,452)	(2,130,475)
Total equity	(1,508,610)	—	(213,507)	(1,722,117)
Total equity and liabilities	13,437,008	(1,691)	(148,208)	13,287,109

2 Summary of significant accounting policies (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Please refer to Note 2.8(i) for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

	Ref	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amortized Cost					
Cash and cash equivalents					
Opening balance under IAS 39		568,196			
Remeasurement: application of ECL* allowance model				(4)	
Closing balance under IFRS 9					568,192
Restricted cash					
Opening balance under IAS 39		143,570			
Remeasurement: application of ECL* allowance model				(20)	
Closing balance under IFRS 9					143,550
Loans to customers					
Opening balance under IAS 39		11,479,696			
Subtraction: To FVPL (IFRS 9)	(A)		(11,479,696)		
Closing balance under IFRS 9					—
Guarantee receivables					
Opening balance under IAS 39		130,073			
Remeasurement: application of ECL* allowance model				(15,209)	
Closing balance under IFRS 9					114,864
Other assets					
Opening balance under IAS 39		450,933			
Remeasurement: application of ECL* allowance model				5,109	
Closing balance under IFRS 9					456,042
Total financial assets measured at amortised cost		12,772,468	(11,479,696)	(10,124)	1,282,648

* *Expected credit losses (ECL)*

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	Ref	IAS 39 carrying amount December 31, 2017 *RMB'000*	Reclassifications *RMB'000*	Remeasurements *RMB'000*	IFRS 9 carrying amount January 1, 2018 *RMB'000*
Fair value through profit or loss (FVPL)					
Loans to customers					
Opening balance under IAS 39		—			
Addition: From amortised cost-Loans to customers (IAS 39)	(A)		11,479,696		
Addition: From amortised cost-Other liabilities (IAS 39)			(1,691)		
Remeasurement: from amortised cost to FV				(194,222)	
Closing balance under IFRS 9					11,283,783
Financial assets at fair value through profit or loss (mandatory)					
Opening balance under IAS 39		—			
Addition: From designated FVPL (IAS 39)	(B)		110,545		
Closing balance under IFRS 9					110,545
Financial assets at fair value through profit or loss (designated)					
Opening balance under IAS 39		110,545			
Subtraction: To mandatory FVPL (IAS 39)	(B)		(110,545)		
Closing balance under IFRS 9					—
Total financial assets measured at FVPL		110,545	11,478,005	(194,222)	11,394,328

The total remeasurement loss after tax of RMB213,507,000 was recognised in opening accumulated losses at January 1, 2018. In addition, an amount of RMB47,055,000 was reclassified from accumulated losses to other reserves at January 1, 2018.

2 Summary of significant accounting policies (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

(A) Loans to customers previously measured at amortised cost but fail the 'solely payments of principal and interest' (SPPI) test

The Group holds a portfolio of loans to customers that failed to meet the SPPI requirement for amortised cost classification under IFRS 9 as the amount paid upon prepayment do not substantially represents unpaid amounts of principal and interests on the principal amount outstanding according to the early repayment clause in the loan contracts. As a result, these loans to customers, which amounted to RMB11,479,696,000, were classified as FVPL from the date of initial application.

(B) Investment in wealth management products previously designated at fair value through profit or loss

The Group holds investment of RMB110,545,000 in wealth management products which had previously been designated at fair value through profit or loss because of its embedded derivative feature. As part of the transition to IFRS 9, this investment failed to meet SPPI requirement and so required to be classified as FVPL, instead of designated FVPL.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(c) *Reconciliation of impairment allowance balance from IAS 39 to IFRS 9*

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 ECL model at January 1, 2018:

Measurement category	Impairment allowance under IAS 39/Provision under IAS 37 *RMB'000*	Reclassification *RMB'000*	Remeasurement *RMB'000*	Impairment allowance under IFRS 9 *RMB'000*
Contract assets				
Contract Assets	9,946	—	14,990	24,936
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash and cash equivalents	—	—	4	4
Restricted Cash	—	—	20	20
Loans to customers	1,796,711	(1,796,711)	—	—
Guarantee receivables	3,065	—	15,209	18,274
Total	1,799,776	(1,796,711)	15,233	18,298
Financial guarantee contracts				
Guarantee liabilities	169,553	—	65,299	234,852
Total	169,553	—	65,299	234,852

2 Summary of significant accounting policies (Continued)

2.3 Subsidiaries

2.3.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Other structured entities through trust and asset management arrangements

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective.

The Group's structured entities include trust plans and asset management plans. Trust plans are managed by unaffiliated trust companies and invest the funds raised in loans to individuals (Note 17).

According to the trust plan agreements, the principal of the trust senior tranche holders and their expected return were fully guaranteed by the Group and the Group is entitled to the residual profits of the trusts. In addition, the trusts only invest in loans suggested by the Group which has the power to direct the activities of the trust plans. As a result, the Group is considered as the primary beneficiary of the trust plans and consolidated the trust plans' assets, liabilities, results of operations and cash flows.

Asset management plan is managed by unaffiliated asset management company and invests the funds raised in loans to individuals (Note 17).

According to the asset management plan agreement, the Group takes the joint liability to repay all the unpaid amount of those borrowers. Since the asset management plan only invests in loans recommended by the Group, the Group has power to control the activities of the asset management plan. As a result, the Group is considered the primary beneficiary of the asset management plan and consolidated the asset management plan's assets, liabilities, results of operations and cash flows.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.3 Subsidiaries (Continued)

2.3.1 Consolidation (Continued)

(a) Particulars of the principal subsidiaries of the Group as at the end of 2018 are set out below:

Company name (ii)	Place of establishment and nature of legal entity	Date of incorporation	Issued capital	Percentage of attributable equity interest As at December 31, 2018	Principal activities and place of operation
Directly owned:					
Vision Credit Limited	Hong Kong/Limited liability company	March 14, 2006	HK$1,500,000,000	100%	Investment holding, Hong Kong
Asia Jumbo Group Limited	The British Virgin Islands/Limited liability company	January 6, 2016	US$1	100%	Investment holding, the British Virgin Islands
VCREDIT Venture Limited	The Cayman Islands/ Limited liability company	March 07, 2018	US$1	100%	Investment holding, the Cayman Islands
VCREDIT Investment Limited	The Cayman Islands/ Limited liability company	July 31, 2018	US$1	100%	Investment holding, the Cayman Islands
Indirectly owned (i):					
Vision Credit Financial Technology Co. Ltd.	The PRC/Wholly foreign owned enterprise	April 14, 2008	RMB689,310,000	100%	Loan facilitation service, the PRC
Shanghai Jingan Vision Small Loan Co. Ltd.	The PRC/Wholly foreign owned enterprise	September 16, 2014	RMB200,000,000	100%	Microcredit service, the PRC
Qingdao Shibei Vision Small Loan Co. Ltd.	The PRC/Wholly foreign owned enterprise	March 6, 2014	RMB200,000,000	100%	Microcredit service, the PRC
Chengdu Weishi Microfinance Co. Ltd.	The PRC/Wholly foreign owned enterprise	December 8, 2011	US$46,500,000	100%	Microcredit service, the PRC
Vision Credit Guarantee Co., Ltd.	The PRC/Wholly foreign owned enterprise	December 24, 2009	US$131,700,000	100%	Guarantee service, the PRC
Vision Financial Leasing (Suzhou) Co., Ltd.	The PRC/Wholly foreign owned enterprise	July 19, 2011	US$10,000,000	100%	Financial leasing service, the PRC
Shanghai Tiantian Asset Management Co. Ltd.	The PRC/Limited liability company	May 31, 2016	—	100%	Development and operation of apps, the PRC
Multi Fortune Asia Corporation	The British Virgin Islands/Limited liability company	July 3, 2018	US$1	100%	Investment holding, the British Virgin Islands
Double Kingdom International Limited	Hong Kong/Limited liability company	June 9, 2018	HK$1	100%	Investment holding, Hong Kong

(i) The English name of some of the subsidiaries of the Group represent the best effort by the Company's management to translate their Chinese names, as these subsidiaries do not have official English names.

(ii) All companies comprising the Group have adopted December 31, as their financial year end date.

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

2 Summary of significant accounting policies (Continued)

2.3 Subsidiaries (Continued)

2.3.1 Consolidation (Continued)

(b) (Continued)

As at December 31, 2018, the trust plans and asset management plans consolidated by the Group amounted to RMB9.30 billion (December 31, 2017: RMB11.84 billion).

Interests held by other interest holders are included in payable to trust plans senior tranche holders and asset management plan holders.

Consolidated structured entities material to the Group as at December 31, 2017 and 2018 are set out below:

	Collective holding by the Group		Product scale		Note
	As at December 31		As at December 31		
Name	2017	2018	2017	2018	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Trust Plan A	2,128,127	**2,309,418**	9,798,859	**8,982,508**	(i)
Trust Plan B	62,500	**—**	625,000	**—**	(i)
Trust Plan C	122,892	**60,672**	622,892	**60,672**	(i)
Trust Plan D	36,000	**—**	360,000	**—**	(i)
Trust Plan E	11,760	**11,760**	117,640	**117,640**	(i)
Trust Plan F	24,000	**—**	171,000	**—**	(i)
Trust Plan G	20,000	**—**	120,000	**—**	(i)
Trust Plan H	18,900	**—**	18,900	**—**	(i)
Trust Plan I	5,000	**—**	5,000	**—**	(i)
Trust Plan J	—	**—**	—	**5,329**	(i)
Trust Plan K	—	**—**	—	**34,670**	(i)
Trust Plan L	—	**—**	—	**100,000**	(i)
Asset management plan A	—	**—**	1,116	**—**	(ii)
	2,429,179	**2,381,850**	11,840,407	**9,300,819**	

(i) The principal activities of these trust are as following: the trust shall, according to the wishes of all the principals, issue trust loans to borrowers recommended by a service vendor, which is agreed or endorsed by principals/beneficiaries.

(ii) The principal activity of the asset management plan is as following: the asset management plan shall issue credit loans to borrowers recommended by a service vendor, which is agreed or endorsed by principals/beneficiaries.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.3 Subsidiaries (Continued)

2.3.2 Separate financial statements

Investments in subsidiaries (including structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceeds the total comprehensive income of the subsidiary in the period the dividends declared or if the carrying amount of the investments in the separate financial statements exceed the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Associates

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, investment in an associate is initially recognised in the consolidated statements of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

At each period end, the Group assesses whether these is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

2 Summary of significant accounting policies (Continued)

2.5 Functional currency and foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate ("**the functional currency**"). United States dollars ("**US$**") is the functional currency of the Company and it's the subsidiary in Hong Kong. RMB is the functional currency of the subsidiaries in PRC. As the major operations of the Group are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Translation of foreign currency

Foreign currency transactions are, on initial recognition, translated by applying the foreign exchange rates ruling at the transaction dates. Monetary items denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date, the resulting exchange differences are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the transaction dates. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rates ruling at the dates the fair value was determined. The exchange differences are recognised in profit or loss, except that exchange differences arising from non-monetary items (such as equities held at fair value through other comprehensive income) denominated in foreign currencies are recognised as other comprehensive income.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer and the vice presidents of the Group that make strategic decisions.

Currently, the Group operates its business as one single segmentation. No separate segment information is necessary to be disclosed.

2.7 Cash and cash equivalents

Cash and cash equivalents are assets with a maturity of less than 3 months from the date of acquisition or highly liquid assets with an original maturity of less than three months, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

2.8 Financial assets — IAS 39

The Group has adopted International Accounting Standard 39 — Financial Instruments: confirmation and measurement (IAS 39) to confirm and measure financial instruments in 2017.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

(i) Classification, recognition and measurement

The Group classifies its 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 categories are: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets.

The Group's financial assets are initially measured at fair value, which normally will be equal to the transaction price plus, in case of a financial asset not held at fair value through profit or loss, transaction costs that are incremental and 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 or loss.

2 Summary of significant accounting policies (Continued)

2.8 Financial assets — IAS 39 (Continued)

(i) Classification, recognition and measurement (Continued)

(a) Financial assets designated at fair value through profit or loss

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognised in profit or loss.

(b) Loans and receivables

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. Costs of obtaining a contract that are not incremental are expensed as incurred.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are not either designated or classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in other is comprehensive income accumulated at which time in equity is reclassified to profit or loss.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.8 Financial assets — IAS 39 (Continued)

(i) Classification, recognition and measurement (Continued)

(c) Available-for-sale financial assets (Continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Interest income on available-for-sale debt instruments are calculated using the effective interest method and recognised in profit or loss.

(ii) De-recognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

2.9 Impairment of financial assets — IAS 39

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

2 Summary of significant accounting policies (Continued)

2.9 Impairment of financial assets — IAS 39 (Continued)

Objective evidence of impairment of financial assets could include the following observable events:

(1) Significant financial difficulty of the issuer or obligor.

(2) A breach of contract, such as a default or delinquency in interest or principal payments.

(3) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(5) The disappearance of an active market for that financial asset because of financial difficulties.

(6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including: adverse changes in the payment status of borrowers in the Group; and national or local economic conditions that correlate with defaults on the assets in the Group.

(7) Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered.

(8) A significant or prolonged decline in the fair value of equity instrument investments; and

(9) Other objective evidence indicating impairment of the financial asset.

(a) Impairment of financial assets carried at amortised cost

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

2 Summary of significant accounting policies (Continued)

2.9 Impairment of financial assets — IAS 39 (Continued)

(a) *Impairment of financial assets carried at amortised cost* (Continued)

If a financial asset carried at amortised cost are 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 financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which 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 amortised cost would have been had the impairment not been recognized.

(b) *Impairment of available-for-sale financial assets*

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or prolonged, the Group considers if the fair value of an available-for-sale equity instrument as at the reporting date is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in other comprehensive income is reclassified to profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognised in profit or loss.

2.10 Financial liabilities/Equity instruments — IAS 39

The Group classifies financial liabilities and equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

All financial liabilities are initially measured at fair value and classified either as financial liabilities at fair value through profit or loss or other financial liabilities.

2 Summary of significant accounting policies (Continued)

2.10 Financial liabilities/Equity instruments — IAS 39 (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument.

A financial liability may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognizing the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated at financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any interest expenses related to the financial liabilities are recognized in profit or loss.

(a) Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or losses arising from de-recognition or amortisation recognized in profit or loss.

(b) De-recognition of financial liabilities

The Group derecognizes a financial liability or part of it only when the underlying present obligation or part of it is discharged, cancelled or expired. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets and liabilities — IFRS 9

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECL and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("**POCI**") financial assets — assets that are credit-impaired at initial recognition — the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

Financial assets that are not 'POCI' but have subsequently become credit-impaired (or "**stage 3**"), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets and liabilities — IFRS 9 (Continued)

Measurement methods (Continued)

Initial recognition and measurement (Continued)

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

2.11.1 Financial assets

(i) Classification and subsequent measurement

From January 1, 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI);
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans to customers and guarantee receivables.

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets and liabilities — IFRS 9 (Continued)

2.11.1 Financial assets (Continued)

(i) *Classification and subsequent measurement* (Continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("**SPPI**"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("**OCI**"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated statement of comprehensive income within 'Fair value change of loans to customers' in the period in which it arises. Income from these financial assets is included in 'Interest type income' (Note 2.26(b)) using the effective interest rate concept for calculation.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets and liabilities — IFRS 9 (Continued)

2.11.1 *Financial assets* (Continued)

(i) *Classification and subsequent measurement* (Continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "**SPPI test**"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement of profit or loss.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets and liabilities — IFRS 9 (Continued)

2.11.1 Financial assets (Continued)

(ii) Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and with the exposure arising from financial guarantee contracts and contract asset. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

(iv) Write-off

Financial assets at amortised cost (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets and liabilities — IFRS 9 (Continued)

2.11.2 Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to convertible redeemable preferred shares and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

Financial guarantee contracts (see Note 2.14).

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2.12 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.14 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Guarantee liabilities

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the ECL model under IFRS 9 Financial Instruments and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Guarantee receivables

Guarantee premium is collected from borrowers on monthly basis regarding to guarantee contracts. The guarantee receivables are recognised at loan inception based on future contractual cash-in, which is the same amount as guarantee liability recognised initially. At each reporting date, the Group assesses whether there is any indicator of impairment to any individual underlying loans of the guarantee receivables and credit impairment loss is recognised using ECL model.

Losses/(gains) from guarantee

In accordance with the principles of IFRS 15, gains from guarantee is recognised over the term of the loan. Losses from guarantee are recognised when the amount of guarantee liability determined in accordance with the ECL model is higher than the amortised balance. Aforesaid gains and losses from guarantee are recognised in losses/(gains) from guarantee on a net basis for each reporting period.

2 Summary of significant accounting policies (Continued)

2.15 Intangible assets

The Group's intangible assets is computer software.

Intangible assets can be recognized only when future economic benefits expected to be obtained from the use of the item will flow into the Group and its cost can be measured reliably. Intangible assets acquired separately are measured on initial recognition at cost.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development staff cost and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Intangible assets with finite useful lives are subsequently amortized on the straight-line basis over the useful economic lives which are assessed by the period of bringing economic benefits for the Company. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed, and adjusted if appropriate, at least at each year end.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.15 Intangible assets (Continued)

The expected service lives of intangible assets are as follows:

	Estimated useful lives of the assets
Software	2–10 years

2.16 Property and equipment

The Group's property and equipment mainly comprise flats, leasehold improvements, office furniture and equipment, computer and electronic equipment, motor vehicles, and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and flats comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of flats, leasehold improvements, office furniture and equipment, computer and electronic equipment and motor vehicles are as follows:

Type of assets	Estimated net residuals rate	Estimated useful lives of the assets	Depreciation rate
Flats	0%-5%	20 years	4.75%-5%
Leasehold Improvements	0%-5%	1–5 years	19%-100%
Office furniture and equipment	0%-5%	3–5 years	19%-33.33%
Computer and electronic equipment	0%-5%	3–5 years	19%-33.33%
Motor vehicles	0%-5%	5 years	19%-20%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2 Summary of significant accounting policies (Continued)

2.16 Property and equipment (Continued)

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

2.17 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

2.18 Current and deferred income tax

The income tax expense for the year comprises current and deferred tax. The income taxes are recognized in the consolidated statements of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(1) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the financial statements date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.18 Current and deferred income tax (Continued)

(2) Deferred income tax

(a) Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(b) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred income tax liabilities in relation to taxable temporary differences arising from the associate's undistributed profits are not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies (Continued)

2.19 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

2.20 Convertible redeemable preferred shares

Convertible redeemable preferred shares (Note 27) are redeemable upon occurrence of certain future events and at the option of the holders. This instrument may be converted into ordinary shares of the Company at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of an initial public offering of the Group as detailed in Note 27.

The Group designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance expenses in the consolidated statements of comprehensive income.

Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognised in the profit or loss.

2.21 Share capital and share premium

Ordinary shares are classified as equity. Convertible redeemable preferred shares issued by the Group are classified as liabilities (Note 29).

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Ordinary shares have a par value of HK$0.1.Initial capital injection over par value per share are accounted for share premium.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Group as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Group.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.22 Earnings per share

(a) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

(b) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.23 Employee benefits

(a) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(b) *Pension obligations*

The employees of the Group are mainly covered by various defined contribution pension plans. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group makes and accrues contributions on a monthly basis to the pension plans, which are mainly sponsored by the related government authorities that are responsible for the pension liability to retired employees. Under such plans, the Group has no other significant legal or constructive obligations for retirement benefits beyond the said contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior years. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

2 Summary of significant accounting policies (Continued)

2.23 Employee benefits (Continued)

(c) Housing benefits

The employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(d) Medical benefits

The Group makes monthly contributions for medical benefits to the local authorities in accordance with the relevant local regulations for the employees. The Group's liability in respect of employee medical benefits is limited to the contributions payable in each period.

2.24 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by making reference to the fair value of the options granted:

- Including any market performance condition (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to serve).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement date and grant date.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.24 Share-based payments (Continued)

(a) Equity-settled share-based payment transactions (Continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

(b) Share-based payment transactions among group entities

The grant by the Company of options and over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the parent entity accounts.

2.25 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition

Revenue is recognised when service is provided to the customer. Depending on the terms of the contract and the laws that apply to the contract, service may be provided over time or at a point in time. Service is provided over time if the Group's performance:

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

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

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

- direct measurements of the value transferred by the Group to the customer; or
- the Group's 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 the Group has 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 the principal revenue streams of the Group.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition (Continued)

(a) Interest income of loans to customers — IAS 39

The Group has originated and held loans mainly through the consolidated trust plans, and also directly lend to borrowers. Interest on the loans to customers (Note 17) is accrued based on the interest rates of the loan as earned using the effective interest method.

The effective interest method is a method of calculating the amortised 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, the Group estimates 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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Interest type income — IFRS 9

The adoption of IFRS 9 has resulted in the reclassification of the loans to customers to FVPL. Accordingly, the interest income recognized for the loans to customers under IAS 39 will be no longer applicable under IFRS 9.The Group use nominal interest rate to calculate total income for each loan and recognise the income based on similar effective interest method as interest type income. The transaction costs are not added to or deducted from the initial fair value, but are immediately recognized in profit or loss on initial recognition.

2 Summary of significant accounting policies (Continued)

2.26 Revenue recognition (Continued)

(c) Non-interest income

Loan facilitation service fees and gains from guarantee

In some arrangements where the Group is not the loan originator, the Group also generates non-interest service fees by facilitating transactions between borrowers and financial institutions. The Group determined that it is not the legal lender and legal borrower in the loan origination and repayment process. Therefore, the Group does not record loans receivable and payable arising from the loans.

The Group's services consist of:

i) Upfront loan facilitation service: matching potential qualified borrowers to institutional investors and facilitating the execution of loan agreements between the parties;

ii) Post loan facilitation service: providing repayment processing services for the institutional investors over the loan term, including following up on the late repayments;

iii) Guarantee service provided to financial institutions, if applicable.

The Group receives upfront payments from borrowers at loan inception (if applicable) and subsequent payments over the term of the loan. The total service fees are first allocated to the guarantee liabilities (Note 2.14) at fair value which meets the definition of a financial guarantee under IFRS 9. The remaining amount is then allocated to upfront loan facilitation service and post loan facilitation service using best estimated selling price, as neither vendor specific objective evident or third party evidence of selling price is available.

Upfront loan facilitation service fee is recognized at loan inception. When the cash received does not equal to the fee allocated the upfront loan facilitation service, a "Contract Asset" or "Contract Liability" shall be recognized in the consolidated statements of financial position; Post loan facilitation fee is recognized over the term of the loan, which approximates the pattern of when the underlying services are performed. Gains from guarantee are recognized ratably over the term of the loan.

Penalty charges

Penalty charges are the additional charges upon default of borrowers. Penalty charges are recognized as other income when incurred on a case-by-case basis. The collectability of these amounts is often highly uncertain. Penalty charges are only highly probable to be collected when the actual overdue amounts are repaid and are recognized as revenue when the cash of the penalty payments is actually collected.

For the year ended December 31, 2018

2 Summary of significant accounting policies (Continued)

2.26 Revenue and income recognition (Continued)

(c) *Non-interest income* (Continued)

User membership fees

User membership provides registered users on the platform with credit report analysis service, discount vouchers for marketplace business partners, and other exclusive rights. Membership prices are determined by the Group according to various service packages, membership term and price sensitivities of different borrowers. Each service in the membership program is treated as an individual obligation and is allocated with a standalone transaction price. User membership fees are collected at inception and are recognized as other income when certain obligations are satisfied.

Referral fees

The Group generally is not the primary obligator nor have the ability to establish the price. The Group is not exposed to the credit risk when directing borrowers to third-party service provider. Upon the third-party service provider's confirmation of a successful payment of service fee, the Group will charge the third-party service provider a fixed rate referral service fee based on the transaction amount and recognise the amount in other income on a net basis. The third-party service provider will settle the payments periodically.

Risk management system service fees

The Group helps certain business partners to build or upgrade their own risk management system based on the Group's robust risk management capability. The Group recognize risk management system service fees in other income when certain obligations agreed in service contracts are satisfied.

Other consulting service fees

The Group provides consulting services to certain business partner and charges consulting service fees based on employees' actual working hours occupied and charge rates agreed in consulting service contracts. The Group recognizes other consulting service fees on accrual basis regarding to employees' consulting hours recorded in system. Business partners will settle the payments periodically.

2.27 Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2 Summary of significant accounting policies (Continued)

2.28 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

3 Critical accounting estimates and judgements

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

3.1 Measurement of the ECL allowance

The measurement of the ECL allowance for financial assets measured at amortised cost and financial guarantee contracts is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

(i) Determining criteria for significant increase in credit risk;

- The financial instrument considered to have experienced a significant increase in credit risk if the borrower is 30 days past due on its contractual payments.

- Using other warning list as supplement criteria such as fraudulent list.

3 Critical accounting estimates and judgements (Continued)

3.1 Measurement of the ECL allowance (Continued)

(ii) Choosing appropriate models and assumptions for the measurement of ECL;

- The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL are the discounted product of the Probability for Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), or ECL=PD*LGD*EAD*discounted rate.

- The calculation of PD and LGD started with Group's historical information. PD and LGD are calculated by type of products, internal risk grades and loan durations as appropriate.

- EAD is calculated based on the amounts the company expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

- The discounted rate (DF) used in the ECL calculation is the original effective interest rate or an approximation thereof.

(iii) Establishing the number and relative weighting of forward-looking scenarios for each type of product/market and the associated ECL;

- The Group used the Morten Model to estimate the relationship between ECL and forward-looking scenarios.

- Based on economic statistics, three different prospective scenarios, namely the "base", the "upside" and the "downside" are used with 80%, 10% and 10% weighting respectively.

- The Group has performed historical analysis and identified the key economic variable impacting credit risk and ECL of each portfolio. The most significant assumption used is CPI, given its impact it has on the loans provided by the Group.

3 Critical accounting estimates and judgements (Continued)

3.2 Fair value of loans to customers

Fair value of loans to customers represent management's best estimate of discounted cash flow of the loan portfolios at the reporting date. Management is required to exercise judgement in making assumptions and estimates when calculating fair value of loans to customers. The Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from each loan before the decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of a borrower (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics similar to each loan. The methodology and assumptions used for estimating the amount and timing of future cash flows, the historical loss experience and the relevant observable data are reviewed regularly to reduce any differences between fair value change of loans to customers and actual loss experience.

3.3 Impairment allowances on loans to customers

Impairment allowances on loans to customers represent management's best estimate of losses incurred in the loan portfolios at the reporting date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances. The Group makes 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 assets in the Group. 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.

3.4 Measurement of financial guarantee liability

The financial guarantee liability is an expected compensation which will be paid in the future due to guarantee contract arrangement. When measuring the financial guarantee liabilities, the Group needs to make a reasonable estimate of the amounts that the Group is 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. Please refer to Note 2.14 for initial and subsequent measurement for financial guarantee liability.

For the year ended December 31, 2018

3 Critical accounting estimates and judgements (Continued)

3.5 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. The Company has used Binomial option-pricing model to determine the fair value of the share options as at the grant date. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. The Group only recognizes 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 instalment of a graded vesting award is treated as a separate share-based award, which means that each vesting instalment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expense.

3.6 Valuation of convertible redeemable preferred shares

The convertible redeemable preferred shares issued by the Group are not traded in an active market and the respective fair value is determined by using valuation techniques.

The Group uses the discounted cash flow method to determine the underlying equity fair value of the Group and adopts equity allocation method to determine the fair value of convertible redeemable 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.

3 Critical accounting estimates and judgements (Continued)

3.7 Recognition of deferred income tax assets

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Management judgement is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and the level of future taxable profits of the individual entities together with tax planning strategies.

3.8 Recognition of loan facilitation service fees

The Group considers the upfront loan facilitation services and post loan facilitation services as distinct performance obligations. However, the Group does not provide these services separately, and the third-party evidence of selling price does not exist either, as public information is not available regarding the amount of fees competitors charge for these services. As a result, the Group uses the expected-cost-plus-a-margin approach to determine its best estimate of selling prices of the different deliverables as the basis for allocation. When estimating the selling prices, the Group considers the cost related to such services, profit margin, customer demand, effect of competition, and other market factors, if applicable.

3.9 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

For the year ended December 31, 2018

4 Financial risk management

(a) Financial risk factors

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

(1) Market risk — foreign exchange risk

The transactions of the Company are denominated and settled in its functional currency, US$. The Group's subsidiaries primarily operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and HK$. Therefore, foreign exchange risk primarily arose from borrowings in the Group's 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 RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Expected changes in net profit/(loss) Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
5% appreciation of RMB	**13,715**	33,970
5% depreciation of RMB	**(13,715)**	(33,970)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index, regardless of:

- 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;
- No consideration of actions taken by the Group.

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

For the year ended December 31, 2018

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(2) 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 which impact the overall profitability and fair value resulting in losses to the Group. The key determinants of the Group's interest rate risk arise from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in repricing risk and basis risk.

The Group's financial department and risk management department jointly monitored and managed the Group's interest rate risk.

The following tables indicate the exposure to interest rate risk for the respective period, and the expected next repricing dates (or maturity dates whichever are earlier) for the interest bearing assets and liabilities of the Group:

	As at December 31, 2018				
	Up to 3 months *RMB'000*	3 months to 1 year *RMB'000*	1-5 years *RMB'000*	Non-interest bearing *RMB'000*	Total *RMB'000*
ASSETS					
Cash and cash equivalents	1,050,111	—	—	—	1,050,111
Restricted cash	—	16,929	110,973	—	127,902
Loans to customers at fair value through profit or loss	1,069,798	4,191,251	3,602,197	—	8,863,246
Guarantee receivables	—	—	—	206,146	206,146
Other financial assets	—	1,000	115,667	576,294	692,961
Total financial assets	2,119,909	4,209,180	3,828,837	782,440	10,940,366
LIABILITIES					
Borrowings	(966,174)	(5,918,622)	(1,246,480)	—	(8,131,276)
Guarantee liabilities	—	—	—	(204,496)	(204,496)
Other financial liabilities	(46,135)	(27,934)	(49,110)	(133,830)	(257,009)
Total financial liabilities	(1,012,309)	(5,946,556)	(1,295,590)	(338,326)	(8,592,781)
Total interest rate sensitivity gap	1,107,600	(1,737,376)	2,533,247	444,114	2,347,585

For the year ended December 31, 2018

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(2) Market risk — interest rate risk (Continued)

	As at December 31, 2017				
	Up to 3 months *RMB'000*	3 months to 1 year *RMB'000*	1-5 years *RMB'000*	Non-interest bearing *RMB'000*	Total *RMB'000*
ASSETS					
Cash and cash equivalents	568,196	—	—	—	568,196
Restricted cash	—	79,070	64,500	—	143,570
Loans to customers at amortised cost	997,063	7,316,385	3,166,248	—	11,479,696
Guarantee receivables	—	—	—	130,073	130,073
Financial assets designated at fair value through profit or loss	—	—	—	110,545	110,545
Other financial assets	—	—	145,544	305,389	450,933
Total financial assets	1,565,259	7,395,455	3,376,292	546,007	12,883,013
LIABILITIES					
Borrowings	(1,432,134)	(6,753,967)	(2,877,032)	—	(11,063,133)
Guarantee liabilities	—	—	—	(169,553)	(169,553)
Convertible redeemable preferred shares	—	—	(3,042,173)	—	(3,042,173)
Other financial liabilities	(10,884)	(79,866)	(34,563)	(57,583)	(182,896)
Total financial liabilities	(1,443,018)	(6,833,833)	(5,953,768)	(227,136)	(14,457,755)
Total interest rate sensitivity gap	122,241	561,622	(2,577,476)	318,871	(1,574,742)

Sensitivities on fixed-rate financial instruments

The Group performs interest rate sensitivity analysis on profit for the Group 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 RMB, USD and HKD interest rates, the Group calculates the changes in profit for the year on a monthly basis.

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(2) Market risk — interest rate risk (Continued)

Sensitivities on fixed-rate financial instruments (Continued)

The table below illustrates the impact to profit of the coming year as of each reporting date based on the structure of interest bearing assets and liabilities as at December 31, 2018, caused by a parallel shift of 25 basis points of RMB, USD and HKD interest rates.

	Expected changes in net profit/(loss) Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
+25 basis points	**794**	794
-25 basis points	**(794)**	(794)

In the sensitivity analysis, the Group adopts 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 date, regardless of subsequent changes;
- No consideration of impact on customers' behavior resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of actions taken by the Group.

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

For the year ended December 31, 2018

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(3) 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 the Group. The Group is exposed to credit risk in relation to its 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. The Group manages the credit risk through a comprehensive credit assessment system.

To manage this risk arising from cash and cash equivalents, restricted cash and financial assets designated at fair value through profit or loss, the Group only transacts with state-owned or reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relations to these financial institutions.

The Group has formulated a complete set of credit management processes and internal control mechanisms, so as to carry out whole process management of credit business. Credit management procedures for its loans comprise the processes of credit origination, credit review, credit approval, disbursement, post-disbursement monitoring and collection. Risks arising from financial guarantees is similar to those associated with loans. Transactions of financial guarantees is subject to the same portfolio management and the same requirements for application as loans to customers.

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

Credit risk measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(3) ***Credit risk*** (Continued)

Measurement of ECL

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

- If a significant increase in credit risk ("**SICR**") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECL on a lifetime basis.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

For the year ended December 31, 2018

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(3) ***Credit risk*** (Continued)

Measurement of ECL (Continued)

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets)

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month ECL	Lifetime ECL	Lifetime ECL

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. No qualitative criteria is considered by the Group since the Group monitor the risk of borrowers purely based on overdue period.

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired if the borrower is more than 90 days past due on its contractual payments. No qualitative criteria is considered by the Group since the Group monitor the risk of borrowers purely based on overdue period.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(3) Credit risk (Continued)

Measurement of ECL (Continued)

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

For the year ended December 31, 2018

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(3) Credit risk (Continued)

Measurement of ECL (Continued)

Measuring ECL — Explanation of inputs, assumptions and estimation techniques (Continued)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

Forward-looking economic information is included in determining the 12-month and lifetime PD. These assumptions vary by product type.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variable impacting credit risk and expected credit losses for each portfolio.

The Group applies expert judgment in the forecast of the economic variable to obtain the best estimate view of the economy over the next one year. The impact of the economic variable on the PD has been determined by performing Eucilidean Distance analysis to understand the impact changes in the variable have had historically on default rates.

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(3) *Credit risk* (Continued)

Measurement of ECL (Continued)

Forward-looking information incorporated in the ECL models (Continued)

In addition to the base economic scenario, the Group also obtained other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date and at 31 December 2018, the Group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

The assessment of ECL incorporates forward-looking information in respect of PD. The Group has performed historical analysis and identified the key economic variable impacting credit risk and ECL for loan portfolio:

Key economic variable	Scenario	Range
CPI (Consumer Price Index)	Base	1.95%–2.52%
	Upside	2.10%–2.70%
	Downside	1.70%–2.40%

For the year ended December 31, 2018

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(3) Credit risk (Continued)

Measurement of ECL (Continued)

Forward-looking information incorporated in the ECL models (Continued)

The Group uses economic variable assumptions when determine expected CPI. The weightings assigned to each economic scenario at December 31, 2018 were as follows:

	Base	Upside	Downside
CPI	80%	10%	10%

Sensitivity analysis

The most significant assumption affecting the ECL allowance is CPI.

Set out below are the changes to the ECL as at December 31, 2018 that would result from increasing CPI by 10% in each of the base, upside and downside scenarios:

	+10%	–10%
Consumer Price Index	(5,602)	2,357

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

Assuming a 10% increase in the weight of the upside scenario and a 10% reduction in the weight of the base scenario, the Group's ECL on December 31, 2018 is reduced by RMB671,000; assuming a 10% increase in the weight of the downside scenario and a 10% reduction in the weight of the base scenario, the Group's ECL is increased by RMB1,654,000.

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(3) *Credit risk* (Continued)

Sensitivity analysis (Continued)

Assuming credit risk changed significantly, resulting in all the Stage 2 financial assets and credit commitments fall into Stage 1, the changes in the ECL and estimated liabilities in the balance sheet are set out below:

	As at December 31, 2018 *RMB'000*
ECL and estimated liabilities	143,469
ECL and estimated liabilities when credit risk change	43,886
Difference-amount	(99,583)
Difference-ratio	–69.41%

Maximum exposure to credit risk before collateral held or other credit enhancements

	As at December 31, **2018** ***RMB'000***	2017 *RMB'000*
Cash and cash equivalents	**1,050,111**	568,196
Restricted cash	**127,902**	143,570
Financial assets at fair value through profit or loss	**—**	110,545
Contract assets	**154,143**	98,845
Stage 1	**153,412**	N/A
Stage 2	**515**	N/A
Stage 3	**216**	N/A
Guarantee receivables	**206,146**	130,073
Stage 1	**205,034**	N/A
Stage 2	**775**	N/A
Stage 3	**337**	N/A
Loans to customers at amortised cost (Note 17)	**—**	11,479,696
Other assets	**759,446**	507,596
Total	**2,297,748**	13,038,521

For the year ended December 31, 2018

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(4) 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 the Group's obligations as they become due. The liquidity of the assets will affect the Group's ability for paying the due debt. The Group is responsible for its own cash flow prediction and continue to monitor both short-term and long-term funding needs, in order to maintain sufficient reserves of cash and marketable securities available at any time.

The table below presents the cash flows receivable and payable by the Group under financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, and the Group manages the liquidity risk based on the estimation of future cash flows.

	As at December 31, 2018				
	On demand *RMB'000*	Overdue *RMB'000*	Within 1 year *RMB'000*	1-5 years *RMB'000*	Total *RMB'000*
Assets					
Cash and cash equivalents	990,092	—	60,913	—	1,051,005
Restricted cash	—	—	16,988	111,361	128,349
Loans to customers at fair value through profit or loss	—	485,282	6,309,050	4,669,139	11,463,471
Guarantee receivables	—	3,906	199,059	3,181	206,146
Other financial assets	29,154	—	526,171	138,847	694,172
Total financial assets	1,019,246	489,188	7,112,181	4,922,528	13,543,143
Liabilities					
Borrowings	—	—	(7,419,325)	(1,352,746)	(8,772,071)
Guarantee liabilities	—	—	(199,483)	(5,013)	(204,496)
Other financial liabilities	(1,701)	—	(208,529)	(59,539)	(269,769)
Total financial liabilities	(1,701)	—	(7,827,337)	(1,417,298)	(9,246,336)
Net value	1,017,545	489,188	(715,156)	3,505,230	4,296,807

For the year ended December 31, 2018

4 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(4) Liquidity risk (Continued)

	As at December 31, 2017				
	On demand *RMB'000*	Overdue *RMB'000*	Within 1 year *RMB'000*	1–5 years *RMB'000*	Total *RMB'000*
Assets					
Cash and cash equivalents	545,929	—	22,277	—	568,206
Restricted cash	—	—	80,070	65,654	145,724
Loans to customers at amortised cost	—	2,330,163	8,987,240	3,422,868	14,740,271
Guarantee receivables	—	707	126,873	2,493	130,073
Financial assets designated at fair value through profit or loss	—	—	110,545	—	110,545
Other financial assets	157,744	—	282,835	11,169	451,748
Total financial assets	703,673	2,330,870	9,609,840	3,502,184	16,146,567
Liabilities					
Borrowings	—	—	(8,636,651)	(3,337,169)	(11,973,820)
Guarantee liabilities	—	—	(166,436)	(3,117)	(169,553)
Convertible redeemable preferred shares	—	—	—	(2,417,395)	(2,417,395)
Other financial liabilities	—	—	(166,624)	(34,570)	(201,194)
Total financial liabilities	—	—	(8,969,711)	(5,792,251)	(14,761,962)
Net value	703,673	2,330,870	640,129	(2,290,067)	1,384,605

For the year ended December 31, 2018

4 Financial risk management (Continued)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including capital reserve on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Group's shares. In the opinion of the directors of the Group, the Group's capital risk is low.

(c) Fair value measurement of financial instruments

Fair value hierarchy

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at December 31, 2018, January 1, 2018 and December 31, 2017 on a recurring basis:

		December 31, 2018			
	Valuation techniques and key input	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets					
Loans to customers at fair value through profit or loss	Discounted cash flow method (i)	—	—	8,863,246	8,863,246
		—	—	8,863,246	8,863,246

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

4 Financial risk management (Continued)

(c) Fair value measurement of financial instruments (Continued)

Fair value hierarchy (Continued)

	Valuation techniques and key input	December 31, 2017 Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets					
Financial assets at fair value through profit or loss	Bank quoted expected return	—	—	110,545	110,545
Liabilities					
Convertible redeemable preferred shares	Discounted cash flow method (i)	—	—	3,042,173	3,042,173

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

The following table presents the changes in level 3 asset instruments for the year ended December 31, 2017 and 2018:

	RMB'000
At January 1, 2017	—
Additions	110,545
At December 31, 2017	110,545
At December 31, 2017	110,545
Changes on initial application of IFRS 9	11,283,783
At January 1, 2018	11,394,328
Additions	16,701,203
Disposals	(18,100,867)
Gains or losses recognized in profit or loss	(1,131,418)
At December 31, 2018	8,863,246

Other than the loans to customers are measured at fair value under IFRS 9 (Note 17), starting from January 1, 2018, there were no transfers between the levels of the fair value hierarchy in the year ended 2018. There were no changes made to any of the valuation techniques applied as of January 1, 2018.

For the year ended December 31, 2018

4 Financial risk management (Continued)

(c) Fair value measurement of financial instruments (Continued)

Fair value hierarchy (Continued)

All of the level 3 liability instruments are convertible redeemable preferred shares. The changes in level 3 liability instruments for the year ended December 31, 2017 and 2018 are showed at Note 27.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at December 31, 2018.

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

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

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

Fair value measurements using significant unobservable inputs

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

As of December 31, 2018, the level 3 instruments was mainly loans to customers at fair value through profit or loss. As the loans to customers are not traded in an active market, its fair value have been determined using discounted cash flows. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimate of discount rate, and other exposure etc. Discount rate was estimated by weighted average cost of capital as of each reporting date. The managements estimated the risk-free interest rate based on the yield of China Government Bond with a maturity life equal to period from the respective reporting date to expected cash flow date.

4 Financial risk management (Continued)

(c) Fair value measurement of financial instruments (Continued)

Fair value measurements using significant unobservable inputs (Continued)

The table below illustrates the impact to profit/(loss) before income tax for the year ended December 31, 2018, if the discount rate used had increased/decreased by 100 basis points with all other variables held constant.

	Expected changes in profit/(loss) before income tax For the year ended December 31, 2018 ***RMB'000***
+100 basis points	(49,457)
-100 basis points	50,633

The Group also has a number of financial instruments which are not measured at fair value in the statement of financial position such as guarantee receivables, other receivables, and other payables. For these instruments, the fair values are not materially different to their carrying amounts.

For the year ended December 31, 2018

5 Net interest type income

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Interest type income		
Loans to customers at fair value through profit or loss	**2,930,339**	N/A
Interest income		
Loans to customers at amortised cost	**N/A**	3,254,516
Including: Interest income on impaired financial assets	**N/A**	19,178
Less: Interest expense		
Payable to holders of trust plans and asset management plans	**(817,766)**	(814,031)
Borrowings from corporations	**(116,458)**	(40,754)
Borrowings from individuals	**(33,174)**	(55,154)
Bank borrowings	**(93)**	(915)
Others	**(7,279)**	(7,372)
	(974,770)	(918,226)
Net interest type income	**1,955,569**	N/A
Net interest income	**N/A**	2,336,290

For the year ended December 31, 2018

6 Loan facilitation service fees

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Upfront loan facilitation service fees	**230,560**	69,102
Post loan facilitation service fees	**39,272**	14,814
	269,832	83,916

Note: The unsatisfied performance obligations as at December 31, 2018 is RMB49,874,000. Management expects that 92.7% of the transaction price allocated to the unsatisfied contracts as of December 31, 2018 will be recognized as revenue within the next 12 months.

7 Other income

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Membership fees (i)	**258,033**	—
Penalty and service charges	**240,832**	248,068
Referral fees	**93,620**	—
Risk management system service fees	**39,896**	13,091
Other consulting service fees	**24,976**	—
(Losses)/gains from guarantee	**(160,436)**	9,211
Others	**14,261**	15,806
	511,182	286,176

(i) The unsatisfied performance obligations as at December 31, 2018 is RMB50,492,000. Management expects that 100% of the transaction price allocated to the unsatisfied contracts as of December 31, 2018 will be recognized as revenue within the next 12 months.

For the year ended December 31, 2018

8 Expenses by nature

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Employee benefit expenses *(Note 9)*	**704,552**	473,776
Loan servicing expenses	**306,022**	217,185
Marketing and advertising fees	**193,907**	55,326
Professional service fees	**81,322**	30,775
Office rental	**57,534**	59,722
Office expenses	**50,339**	33,378
Depreciation and amortization	**31,430**	24,335
Tax and surcharge	**12,827**	12,343
Auditor's remuneration		
– Audit service	**9,406**	794
– Non-audit service	**792**	143
Others	**19,994**	24,926
	1,468,125	932,703

9 Employee benefit expenses

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	**340,392**	378,615
Pension costs — defined contribution plans	**43,496**	48,653
Other social security costs, housing benefits and other employee benefits	**45,054**	36,382
Share-based compensation expenses	**275,610**	10,126
	704,552	473,776

For the year ended December 31, 2018

10 Directors' remuneration

The remuneration of every director for the year ended December 31, 2018 is set out as follows:

	Director's fee *RMB'000*	Salaries, wages and bonuses *RMB'000*	Pension costs — defined contribution plan *RMB'000*	Other social security costs, housing benefits and other employee benefits *RMB'000*	Share-based compensation expenses *RMB'000*	Total *RMB'000*
Executive Directors						
Liu Sai Wang Stephen (a)	1,623	278	—	9	173,950	175,860
Liu Sai Keung Thomas (b)	1,464	278	—	13	1,251	3,006
Non-Executive Directors						
Ma Ting Hung (c)	—	—	—	1,553	14,811	16,364
Chen Penghui (d)	107	—	—	—	—	107
Seek Ngee Huat (e)	107	—	—	—	—	107
Wu Chak Man (f)	107	—	—	—	—	107
	3,408	556	—	1,575	190,012	195,551

The remuneration of every director for the year ended December 31, 2017 is set out as follows:

	Director's fee *RMB'000*	Salaries, wages and bonuses *RMB'000*	Pension costs — defined contribution plan *RMB'000*	Other social security costs, housing benefits and other employee benefits *RMB'000*	Share-based compensation expenses *RMB'000*	Total *RMB'000*
Executive Directors						
Liu Sai Wang Stephen (a)	1,090	824	—	9	—	1,923
Liu Sai Keung Thomas (b)	—	824	—	758	297	1,879
Non-Executive Directors						
Ma Ting Hung (c)	—	—	—	1,406	—	1,406
	1,090	1,648	—	2,173	297	5,208

No director's termination benefit subsisted at the end of the year or at any time during the year.

No consideration provided to or receivable by third parties for making available directors' services subsisted at the end of the year or at any time during the year.

No loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year.

For the year ended December 31, 2018

10 Directors' remuneration (Continued)

Notes:

(a) Appointed as director of the Company in September 2007;

(b) Appointed as director of the Company in November 2017;

(c) Appointed as director of the Company in September 2007;

(d) Appointed as director of the Company in June 2018;

(e) Appointed as director of the Company in June 2018;

(f) Appointed as director of the Company in June 2018;

11 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2017 and 2018 include 2 and 3 directors whose emoluments are reflected in the analysis shown in Note 10. The emoluments payable to the remaining 3 and 2 senior management for each of the years ended December 31, 2017 and 2018 are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**1,528**	2,710
Pension costs — defined contribution plans	**50**	92
Other social security costs, housing benefits and other employee benefits	**47**	84
Share-based compensation expenses	**35,480**	146
	37,105	3,032

The emoluments fell within the following bands:

	Year ended December 31,	
	2018	2017
Nil to HKD1,000,000	**—**	—
HKD1,000,001 to HKD1,500,000	**—**	—
HKD1,500,001 to HKD2,000,000	**—**	2
Over HKD2,000,000	**2**	1
	2	3

12 Credit impairment losses/Impairment losses

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash and cash equivalents	**3**	—
Restricted cash	**1**	—
Loans to customers at amortised cost	**N/A**	(1,397,199)
Contract assets	**(17,293)**	(11,872)
Guarantee receivables	**(35,998)**	(3,562)
Other assets	**(1,061)**	(4,806)
	(54,348)	(1,417,439)

13 Other gains/(losses), net

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Finance cost, net (i)	**(19,366)**	27,353
Gain from financial assets at fair value through profit or loss	**1,360**	545
Gain from disposal of subsidiary (ii)	**35,589**	—
Loss on early repayment (iii)	**N/A**	(36,738)
	17,583	(8,840)

(i) Finance cost, net

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Exchange (losses)/gains	**(25,718)**	25,460
Bank charges	**(999)**	(771)
Bank interest income	**7,351**	2,664
	(19,366)	27,353

For the year ended December 31, 2018

13 Other gains/(losses), net (Continued)

(ii) On October 10, 2018, the Group disposed of Hangzhou Vision Financial Servicing Co., Ltd. and its subsidiary, Hangzhou Vision Information Technology Co. Ltd.. Particulars of the disposed subsidiaries are set out below:

Company name	Place of establishment and nature of legal entity	Date of incorporation	Issued capital	Percentage of attributable equity interest As at December 31, 2018	2017	Principal activities and place of operation
Hangzhou Vision Financial Servicing Co., Ltd.	PRC/Wholly foreign owned enterprise	May 28, 2010	USD2,000,000	—	100%	Loan facilitation service, the PRC
Hangzhou Vision Information Technology Co. Ltd.	PRC/Limited liability company	April 17, 2015	—	—	100%	Technology service, the PRC

Details of the disposal of the subsidiary

	2018 *RMB'000*
Consideration received:	
Cash	11,750
Total disposal consideration	11,750
Minus: Carrying amount of net assets sold	(23,839)
Gain on disposal before income tax	35,589
Income tax expense on gain	(5,339)
Gain on disposal after income tax	30,250

The carrying amounts of assets and liabilities of the subsidiary at the date of disposal (October 10, 2018) were:

	As at October 10, 2018 *RMB'000*
Cash and cash equivalents	3,325
Property, plant and equipment	4,171
Deferred income tax assets	2,459
Other assets	84,946
Total assets	94,901
Other liabilities	91,240
Dividends payable	27,500
Total liabilities	118,740
Net assets	(23,839)

(iii) Loans to customers are classified as financial assets measured at FVPL, starting from January 1, 2018, under IFRS 9, the early repayment option associated with loans are no longer measured separately and the loss on early repayment are reclassified as fair value change of loans to customers.

14 Income tax expense

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Current income tax	**(185,241)**	(98,127)
Deferred income tax	**106,709**	39,458
	(78,532)	(58,669)

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

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Loss before income tax:	**(948,421)**	(944,464)
Tax calculated at income tax rate of each entity	**(74,320)**	(52,020)
Tax effects of:		
Expenses not deductible for income tax purpose	**(3,979)**	(9,540)
Revenue not subject to income tax	**4,125**	—
Super deduction for research and development expenses	**9,061**	4,762
Previously unrecognised tax losses now recouped to reduce current tax expense	**—**	1,838
No recognition of deferred tax assets on tax losses	**(13,419)**	(3,709)
Income tax expense	**(78,532)**	(58,669)

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

British Virgin Islands

Enterprise incorporated in the British Virgin Islands (BVI) is not subject to tax on income or capital gains.

Cayman Islands

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

For the year ended December 31, 2018

14 Income tax expense (Continued)

China

The PRC Enterprise Income Tax Law (the "**EIT Law**") applies an income tax rate of 25% to all enterprises but grants preferential tax treatments to High and New Technology Enterprises ("**HNTEs**"). Under these preferential tax treatments, HNTEs can enjoy a preferential income tax rate of 15% for three years, but need to re-apply after the end of the three-year period. Vision Credit Financial Technology Company, an indirect wholly-owned subsidiary of the Company, qualified as HNTE under the EIT law in October 23, 2014. Therefore, Vision Credit Financial Technology Company was entitled to a preferential income tax rate of 15% for the years ended December 31, 2018. In November 2017, Vision Credit Financial Technology Company was further approved as HNTE and will continue to enjoy the preferential income tax rate of 15% from 2018 to 2020.

Hong Kong

Enterprise incorporated in Hong Kong ("**HK**") is subject to Corporate Income Tax rate of 16.5%.

Withholding Tax on Undistributed Profits

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

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

15 Loss per share

Weighted average number of shares used as the denominator

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Loss for the year attributable to owners of the Company	**(1,026,953)**	(1,003,133)
Weighted average number of ordinary shares in issue *('000)*	**350,239**	144,205
Basic loss per share *(RMB yuan)*	**(2.93)**	(6.96)
Diluted loss per share *(RMB yuan)*	**(2.93)**	(6.96)

15 Loss per share (Continued)

(a) Basic loss per share is calculated by dividing the loss of the Group attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

(b) Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For year ended December 31, 2018 and 2017, the Group had two categories of potential ordinary shares, the shares options awarded (Note 31) and convertible redeemable preferred shares (Note 27). As the Group incurred losses for the year ended December 31, 2018 and 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the year ended December 31, 2018 and 2017 are the same as basic losses per share of the respective years.

16 Cash and bank balances

(a) Cash and cash equivalents

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Cash at bank	**839,324**	502,413
Cash held through platform	**210,788**	65,783
Less: impairment allowance	**(1)**	—
	1,050,111	568,196

(b) Restricted cash

Pledged cash in banks	**127,921**	143,570
Less: impairment allowance	**(19)**	—
	127,902	143,570

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

For the year ended December 31, 2018

17 Loans to customers at fair value through profit or loss/Loans to customers at amortised cost

The composition of loans is as follows:

	As at December 31, 2018 RMB'000	2017 RMB'000
Credit loans	**7,288,408**	N/A
Pledged loans	**1,574,838**	N/A
Loans to customers at fair value through profit or loss	**8,863,246**	N/A

	As at December 31, 2018 RMB'000	2017 RMB'000
Loans to customers at amortised cost — gross	**—**	13,276,407
Less: impairment allowances	**—**	(1,796,711)
Loans to customers at amortised cost — net	**—**	11,479,696

Impairment of loans to customers is assessed collectively since each loan to customer is not individually significant.

As at December 31, 2018, all loans to customers are personal loans made to individual borrowers with original term up to 60 months. The annualized interest rates of these loans ranged between 7.8% to 30%.

The Group has established business relationship with the trust plans which were administered by third-party trust companies. The trust plans invested solely in loans on the Group's platform to provide returns to the beneficiaries of the trust plans. The Group entered into the agreements that the principal of the trust senior tranche holders and their expected return were fully guaranteed by the Group. Meanwhile, all the secondary beneficial right was taken by the Group, and the Group was entitled to the residual profits of the trusts. The Group holds variable interest in the trust plans. In addition, since the trust plans only invest in loans recommended by the Group, the Group has power to direct the activities of the trust plans. As a result, the Group is considered the primary beneficiary of the trust plans and consolidated the trust plans' assets, liabilities, results of operations and cash flows.

17 Loans to customers at fair value through profit or loss/Loans to customers at amortised cost (Continued)

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

	As at December 31, 2018 *RMB'000*
Within 1 year (including 1 year)	5,026,719
1 to 2 years (including 2 years)	716,378
2 to 5 years (including 5 years)	3,120,149
	8,863,246

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

	As at December 31, 2018 *RMB'000*
Overdue	485,282
Within 1 year (including 1 year)	5,261,049
1 to 2 years (including 2 years)	1,579,993
2 to 5 years (including 5 years)	1,536,922
	8,863,246

18 Contract assets

The Group uses the expected-cost-plus-a-margin approach to determine its best estimate of selling prices of the different deliverables as the basis for allocation. The service fee allocated to loan facilitation is recognized as revenue upon execution of loan agreements between investors and borrowers. When the fee allocated to the loan facilitation service is more than the cash received, a "Contract Asset" was recognized as follows:

	As at December 31,	
	2018 *RMB'000*	2017 *RMB'000*
Contract assets	**174,039**	108,791
Less: ECL allowance	**(19,896)**	N/A
Less: Impairment allowances	**N/A**	(9,946)
Contract assets, net	**154,143**	98,845

For the year ended December 31, 2018

18 Contract assets (Continued)

Movement of gross carrying amount

Contract assets	Year ended December 31, 2018 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Opening balance at January 1, 2018	95,945	3,928	8,918	108,791
New financial assets originated or purchased	177,399	—	—	177,399
Transfer for the year:				
From stage 1 to stage 2	(5,527)	5,527	—	—
From stage 1 to stage 3	(18,791)	—	18,791	—
From stage 2 to stage 1	4	(4)	—	—
From stage 2 to stage 3	—	(2,609)	2,609	—
From stage 3 to stage 2	—	—	—	—
Asset derecognised (including final repayment)	(86,254)	(1,314)	(4,046)	(91,614)
Asset written off	—	—	(20,537)	(20,537)
Ending balance	162,776	5,528	5,735	174,039

Movement of ECL allowance

ECL allowance	Year ended December 31, 2018 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Opening balance at January 1, 2018	(13,737)	(3,487)	(7,712)	(24,936)
New financial assets originated or purchased	(16,174)	—	—	(16,174)
Transfer for the year:				
From stage 1 to stage 2	504	(4,959)	—	(4,455)
From stage 1 to stage 3	1,713	—	(17,166)	(15,453)
From stage 2 to stage 1	—	4	—	4
From stage 2 to stage 3	—	2,341	(2,383)	(42)
From stage 3 to stage 2	—	—	—	—
Asset derecognised (including final repayment)	7,941	1,179	3,696	12,816
Changes to risk parameters (model inputs)	10,389	(91)	(2,491)	7,807
Asset written off	—	—	20,537	20,537
Ending balance	(9,364)	(5,013)	(5,519)	(19,896)

Note: Contract assets originated in 2018 and derecognised or written off in the same year are not included in the above movements.

18 Contract assets (Continued)

Movement of ECL allowance (Continued)

ECL allowance	Year ended December 31, 2018 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
ECL Income statement charge for the period	**4,373**	**(1,526)**	**(20,140)**	**(17,293)**

The activities in the total loss allowance for the year ended December 31, 2017 consisted of the following:

	Year ended December 31, 2017 *RMB'000*
Opening balance	(3,981)
Provisions for the period	(11,872)
Write-offs	5,907
Ending balance	(9,946)

Note: The Group receives upfront payments from borrowers at loan inception and subsequent payments over the term of the loan. Contract asset represents the Group's right to consideration in exchange for services that the Group has provided. A substantial majority of the Group's contract assets as at December 31, 2018 would be realized within the next 12 months as the weighted average term of the arrangements where the Group is not the loan originator were less than 12 months. The Group determined there is no significant financing component for its arrangements where the Group is not the loan originator.

19 Guarantee receivables and guarantee liabilities

	As at December 31, 2018 *RMB'000*	2017 *RMB'000*
Guarantee receivables	**235,934**	133,138
Less: ECL allowance	**(29,788)**	N/A
Less: Impairment allowances	**N/A**	(3,065)
Guarantee receivables, net	**206,146**	130,073

For the year ended December 31, 2018

19 Guarantee receivables and guarantee liabilities (Continued)

A summary of the Group's guarantee receivables movement as at December 31, 2018 and 2017 is presented below:

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Guarantee receivables		
Opening balance	**130,073**	23,681
Changes on initial application of IFRS 9	**(15,209)**	N/A
Addition arising from new business	**430,777**	185,916
Impairment losses	**N/A**	(3,562)
Expected credit losses	**(35,998)**	N/A
Reversal due to early repayment	**(50,172)**	(16,815)
Payment received from borrowers	**(253,325)**	(59,147)
Ending balance	**206,146**	130,073

Movement of gross carrying amount

Guarantee receivables	Year ended December 31, 2018 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Opening balance at January 1, 2018	127,833	2,601	2,704	133,138
New financial assets originated or purchased	232,574	—	—	232,574
Transfer for the year:				
From stage 1 to stage 2	(9,077)	9,077	—	—
From stage 1 to stage 3	(25,439)	—	25,439	—
From stage 2 to stage 1	1	(1)	—	—
From stage 2 to stage 3	—	(2,464)	2,464	—
From stage 3 to stage 2	—	—	—	—
Asset derecognised (including final repayment)	(109,439)	(136)	(31)	(109,606)
Asset written off	—	—	(20,172)	(20,172)
Ending balance	216,453	9,077	10,404	235,934

For the year ended December 31, 2018

19 Guarantee receivables and guarantee liabilities (Continued)

Movement of ECL allowance

ECL allowance	Year ended December 31, 2018 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
Opening balance at January 1, 2018	(13,555)	(2,281)	(2,438)	(18,274)
New financial assets originated or purchased	(18,464)	—	—	(18,464)
Transfer for the year:				
From stage 1 to stage 2	721	(8,132)	—	(7,411)
From stage 1 to stage 3	2,020	—	(23,778)	(21,758)
From stage 2 to stage 1	—	1	—	1
From stage 2 to stage 3	—	2,208	(2,303)	(95)
From stage 3 to stage 2	—	—	—	—
Asset derecognised (including final repayment)	8,689	122	29	8,840
Changes to risk parameters (model inputs)	9,170	(220)	(1,749)	7,201
Asset written off	—	—	20,172	20,172
Ending balance	(11,419)	(8,302)	(10,067)	(29,788)

Note: Guarantee receivables originated in 2018 and derecognised or written off in the same year are not included in the above movements.

ECL allowance	Year ended December 31, 2018 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
ECL Income statement charge for the period	2,136	(6,021)	(32,113)	(35,998)

For the year ended December 31, 2018

19 Guarantee receivables and guarantee liabilities (Continued)

The activities in the total loss allowance for the year ended December 31, 2017 consisted of the following:

	Year ended December 31, 2017
	RMB'000
Opening balance	(872)
Provisions for the period	(3,562)
Write-offs	1,369
Ending balance	(3,065)

A summary of the Group's guarantee liabilities movement as at December 31, 2018 and 2017 is presented below:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Guarantee liabilities		
Opening balance	**169,553**	31,276
Changes on initial application of IFRS 9	**65,299**	N/A
Addition arising from new business	**430,777**	185,916
Release of the margin	**(27,459)**	(9,211)
Expected credit losses	**137,723**	N/A
Payouts during the period, net	**(571,397)**	(38,428)
Ending balance	**204,496**	169,553

20 Financial assets at fair value through profit or loss

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Wealth management product	**—**	110,545

21 Investments accounted for using the equity method

Set out below are the associates of the Group which, in the opinion of the directors, are material to the Group. The entities listed below have share capital consisting solely of ordinary shares, which is held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Investment date
Apass Holdings Company Limited	BVI	40.00	(i)	June 14, 2016
Shanghai COSCO Shipping Small Loan Co., Ltd	PRC	10.00	(ii)	December 28, 2017

(i) The Group invested in Apass Holdings Company Limited as a 40.00% shareholder for a consideration of HK$ 20,000,000. Apass Holdings Company Limited is a holding company controls an operational company in the PRC that provides data development services.

Key financial information of Apass Holdings Company Limited are listed below:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Assets	**22,746**	30,733
Equity	**19,695**	26,960
Net losses	**(7,265)**	(15,920)

(ii) The Group invested in Shanghai COSCO Shipping Small Loan Co., Ltd. as a 10.00% shareholder for a consideration of RMB20,000,000. There are five members on the board of directors, of which one board member was appointed by the Group.

Key financial information of Shanghai COSCO Shipping Small Loan Co., Ltd. are listed below:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Assets	**204,872**	N/A
Equity	**200,060**	N/A
Net losses	**60**	N/A

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Balance at beginning of the year	**30,784**	17,152
Addition	**—**	20,000
Share of net loss	**(2,900)**	(6,368)
Translation difference	**(200)**	—
Balance at end of the year	**27,684**	30,784

For the year ended December 31, 2018

22 Deferred income tax

	As at December 31,			
	2018		2017	
	Deductible/ (taxable) temporary differences *RMB'000*	**Deferred income tax assets/ (liabilities)** *RMB'000*	Deductible/ (taxable) temporary differences *RMB'000*	Deferred income tax assets/ (liabilities) *RMB'000*
Deferred income tax liabilities				
Unrealized gains	**(1,296,748)**	**(289,600)**	(1,354,000)	(338,500)
Others	**(2,756)**	**(689)**	(2,760)	(690)
	(1,299,504)	**(290,289)**	(1,356,760)	(339,190)
Deferred income tax assets				
Impairment allowance	**165,836**	**41,459**	1,958,812	489,703
Fair value change of loan to customers	**2,375,424**	**578,094**	N/A	N/A
Loss on early repayment	**N/A**	**N/A**	1,692	423
Accrued expenses	**—**	**—**	26,440	6,610
Others	**40,791**	**6,119**	—	—
	2,582,051	**625,672**	1,986,944	496,736

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

	As at December 31,	
	2018 *RMB'000*	2017 *RMB'000*
Deferred income tax assets	**413,117**	279,860
Deferred income tax liabilities	**(77,734)**	(122,314)

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22 Deferred income tax (Continued)

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

	Provisions *RMB'000*	Fair value change *RMB'000*	Unrealized gains *RMB'000*	Tax loss *RMB'000*	Others *RMB'000*	Total *RMB'000*
As at January 1, 2018	489,703	—	(338,500)	—	6,343	157,546
Adjustment on adoption of IFRS 9	(461,823)	532,951	—	—	—	71,128
Restated balance as at January 1, 2018	27,880	532,951	(338,500)	—	6,343	228,674
Recognized in the profit or loss	13,579	45,143	48,900	—	(913)	106,709
As at December 31, 2018	41,459	578,094	(289,600)	—	5,430	335,383
As at January 1, 2017	276,597	N/A	(165,907)	460	6,938	118,088
Recognized in the profit or loss	213,106	N/A	(172,593)	(460)	(595)	39,458
As at December 31, 2017	489,703	N/A	(338,500)	—	6,343	157,546

Deferred income tax assets are recognized for tax losses carrying forwards and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. As at December 31, 2018, the Group did not recognise deferred income tax assets in respect of tax losses and deductible temporary differences of approximately RMB13,419,000.

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23 Intangible assets

	Software
	RMB'000
Cost	
As at January 1, 2017	18,858
Additions	5,228
As at December 31, 2017	24,086
Accumulated amortisation	
As at January 1, 2017	(7,121)
Amortisation charge for the year	(3,477)
As at December 31, 2017	(10,598)
Net book value	
As at December 31, 2017	**13,488**
Cost	
As at January 1, 2018	24,086
Additions	5,865
Disposals	(5,683)
As at December 31, 2018	24,268
Accumulated amortisation	
As at January 1, 2018	(10,598)
Amortisation charge for the year	(2,539)
Disposals	5,683
As at December 31, 2018	(7,454)
Net book value	
As at December 31, 2018	**16,814**

There is no indication that intangible assets have suffered an impairment loss during year 2018.

24 Property and equipment

	Flats *RMB'000*	Furniture and office equipment *RMB'000*	Motor vehicles *RMB'000*	Electronic equipment *RMB'000*	Leasehold improvements *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost							
As at January 1, 2017	11,934	4,774	5,458	29,025	29,483	248	80,922
Additions	—	4,137	1,781	23,938	10,020	14,899	54,775
Disposals	—	(2,340)	(734)	(3,392)	(7,380)	—	(13,846)
Transfers	—	—	—	—	13,453	(13,453)	—
Foreign currency translation reserve	—	—	(85)	—	(10)	—	(95)
As at December 31, 2017	11,934	6,571	6,420	49,571	45,566	1,694	121,756
Accumulated depreciation							
As at January 1, 2017	(1,291)	(3,046)	(3,595)	(15,569)	(16,492)	—	(39,993)
Depreciation charge for the year	(597)	(656)	(939)	(8,890)	(9,776)	—	(20,858)
Disposals	—	1,558	1,039	3,442	7,380	—	13,419
Foreign currency translation reserve	—	—	24	—	7	—	31
As at December 31, 2017	(1,888)	(2,144)	(3,471)	(21,017)	(18,881)	—	(47,401)
Net book value							
As at December 31, 2017	10,046	4,427	2,949	28,554	26,685	1,694	74,355

24 Property and equipment (Continued)

	Flats RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
As at January 1, 2018	11,934	6,571	6,420	49,571	45,566	1,694	121,756
Additions	—	47	977	13,533	—	3,973	18,530
Disposals	—	(1,142)	(47)	(438)	(6,228)	—	(7,855)
Transfers	—	—	—	—	4,546	(4,546)	—
Disposal of subsidiaries	—	(1,126)	(1,053)	(6,013)	(13,855)	(369)	(22,416)
Foreign currency translation reserve	—	—	118	—	9	—	127
As at December 31, 2018	11,934	4,350	6,415	56,653	30,038	752	110,142
Accumulated depreciation							
As at January 1, 2018	(1,888)	(2,144)	(3,471)	(21,017)	(18,881)	—	(47,401)
Depreciation charge for the year	(597)	(1,009)	(1,124)	(13,499)	(12,662)	—	(28,891)
Disposals	—	380	47	370	6,227	—	7,024
Disposal of subsidiaries	—	897	658	5,461	11,229	—	18,245
Foreign currency translation reserve	—	—	(45)	—	(8)	—	(53)
As at December 31, 2018	(2,485)	(1,876)	(3,935)	(28,685)	(14,095)	—	(51,076)
Net book value							
As at December 31, 2018	9,449	2,474	2,480	27,968	15,943	752	59,066

There is no indication that property and equipment have suffered an impairment loss during year 2018.

25 Other assets

	As at December 31, 2018 RMB'000	2017 RMB'000
Security deposits in financial institutions	**280,887**	145,544
Due from business partners	**314,710**	49,205
Funds held in third party payment companies	**80,319**	72,241
Prepaid expense	**53,564**	55,399
Rental deposits	**9,679**	10,354
Due from related parties *(Note 32)*	**—**	142,494
Other deposits and receivables	**24,461**	40,581
	763,620	515,818
Less: Impairment allowance	**(4,174)**	(8,222)
	759,446	507,596

26 Borrowings

	As at December 31, 2018 RMB'000	2017 RMB'000
Payable to holders of trust plans and asset management plans	**6,918,969**	9,411,228
Borrowings from corporations (i)	**1,073,126**	1,109,440
Borrowings from individuals (ii)	**138,517**	540,532
Bank borrowings	**664**	1,933
	8,131,276	11,063,133
Denominated in:		
RMB	**7,801,314**	10,245,161
HKD	**312,804**	801,636
USD	**17,158**	16,336
	8,131,276	11,063,133

(i) Borrowings from corporations were mainly from third-party companies. The interest rate of borrowings from corporations was 6.25%~10.50% which was close to the market interest rate. The terms of borrowings from corporations are mainly 1 to 2 years.

(ii) Borrowings from individuals were mainly from shareholders and their relatives. The interest rate of borrowings from individuals was 10% which was similar to the market interest rate. And the terms are all 1 year. At December 31, 2018, the amount of borrowings from related parties was RMB90,249,000. It is also showed at Note 32(b).

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26 Borrowings (Continued)

26.1 Security of borrowings

	As at December 31, 2018 RMB'000	2017 RMB'000
Secured		
Bank borrowings (i)	664	1,933
Unsecured		
Payable to holders of trust plans and asset management plans	6,918,969	9,411,228
Borrowings from corporations	1,073,126	1,109,440
Borrowings from individuals	138,517	540,532
	8,130,612	11,061,200
Total borrowings	8,131,276	11,063,133

(i) In June 2014, the Group borrowed a loan of RMB5,740,000 million from Shanghai Pudong Development Bank. It is secured by the flats of the Group (Net book value: RMB9,449,000) and guaranteed by third-party companies.

26.2 The following table sets forth the effective interest rates of borrowings

	As at December 31, 2018	2017
Payable to holders of trust plans and asset management plans	7.03%~15.00%	6.00%~15.00%
Borrowings from Corporations	6.25%~10.50%	10.00%
Borrowings from Individuals	10.00%	10.00%
Bank borrowings	6.18%	6.18%

26.3 Contractual maturities of borrowings

	As at December 31, 2018 RMB'000	2017 RMB'000
Within 1 year	4,015,282	5,376,867
Between 1 and 2 years	4,065,760	5,684,333
Between 2 and 5 years	50,234	1,933
	8,131,276	11,063,133

26 Borrowings (Continued)

26.4 Borrowings by repayment schedule

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**6,884,796**	8,221,263
Between 1 and 2 years	**1,196,910**	2,841,870
Between 2 and 5 years	**49,570**	—
	8,131,276	11,063,133

27 Convertible redeemable preferred shares

Since the date of incorporation, the Company has completed four rounds of financing by issuing convertible redeemable preferred shares, namely, series A convertible redeemable preferred shares issued in 2012, series B convertible redeemable preferred shares issued in 2014, series B (plus) convertible redeemable preferred shares in 2016, and series C convertible redeemable preferred shares in 2017.

In March 2012, pursuant to a share purchase agreement, the Company issued 110,000,000 Series A convertible redeemable preferred shares at a price of US$0.50 per share for a total consideration of US$55,000,000 to Series A investors.

According to 2011 financial performance of the Company, the conversion ratio of Series A convertible redeemable preferred shares was adjusted from 1 to 0.9321402 as agreed in the purchase agreement. Based on the adjusted of conversion, the number of Series A convertible redeemable preferred shares changed from 110,000,000 to 102,535,422, the price of Series A convertible redeemable preferred shares changed from US$0.50 per share to US$0.5364 per share.

In July 2014, pursuant to a share purchase agreement, the Company issued 51,514,499 Series B convertible redeemable preferred shares at a price of US$0.8735 per share for a total consideration of US$45,000,000 to Series B investors.

In January 2016, pursuant to a share purchase agreement, the Company issued 62,965,092 Series B (plus) convertible redeemable preferred shares at a price of US$0.8735 per share for a total consideration of US$55,000,000 to Series B (plus) investors.

In September 2017, pursuant to a share purchase agreement, the Company issued 31,011,598 Series C convertible redeemable preferred shares at a price of US$1.6123 per share for a total consideration of US$50,000,000 to Series C investors.

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27 Convertible redeemable preferred shares (Continued)

The key terms of convertible redeemable preferred shares are summarized as follows:

Voting rights	Each Preferred Share has voting rights equivalent to the number of ordinary shares to which it is convertible at the record date. The preferred shareholders shall vote together with the ordinary shareholders, and not as a separate class or series, on all matters put before the shareholders.
Dividends rights	Each holder of convertible redeemable preferred shares shall be entitled to participate in any dividend or distribution (cash or in specie) of the Company calculated on the basis of such convertible redeemable preferred shares having been converted into Ordinary Shares immediately before the record date for such dividend, distribution or issue of bonus Ordinary Shares, such dividend shall be paid out of the profits of the Company available, and shall be paid to (i) first, the holders of Series C convertible redeemable preferred shares; (ii) second, the holders of Series B (Plus) convertible redeemable preferred shares and the holders of Series B convertible redeemable preferred shares; (iii) third, the holders of Series A convertible redeemable preferred shares; and (iv) fourth, the holders of Ordinary Shares.
Conversion feature	Each preferred share is convertible, at the option of the holder, at any time after the date of issuance of such convertible redeemable preferred shares according to a conversion ratio, subject to adjustments for dilution, including but not limited to stock splits, stock dividends and capitalization and certain other events. Each preferred share is convertible into a number of ordinary shares determined by dividing the applicable original issuance price by the conversion price. Each preferred share shall automatically converted into ordinary shares, at the then applicable preferred share conversion price upon the occurrence of certain events.
Redemption feature	At any time on or after a specified date or upon occurrence of certain events, the Company shall redeem all of the respective outstanding convertible redeemable preferred shares in that class or series at the redemption price that specified in the Company's Article of Association.
Liquidation preference	In the event of any liquidation including deemed liquidation, dissolution or winding up of the Company. Holders of the convertible redeemable preferred shares shall be entitled to receive a per share amount equal to a certain multiple of the original preferred share issue price of the respective series of convertible redeemable preferred shares, as adjusted for share dividends, share splits, combinations, recapitalizations or similar events, plus all accrued and declared but unpaid dividends thereon, in a certain sequence. After such liquidation amounts have been paid in full, any remaining funds or assets of the Company legally available for distribution to shareholders shall be distributed on a pro rata, pari passu basis among the holders of the convertible redeemable preferred shares, on an as-converted basis, together with the holders of the ordinary shares.

27 Convertible redeemable preferred shares (Continued)

The movement of the convertible redeemable preferred shares is set out as below:

	RMB'000
At January 1, 2018	**3,042,173**
Changes in fair value of preferred shares	**1,047,156**
OCI result from credit risk (Reclassified from fair value change)	**14,109**
Currency translation differences	**(11,495)**
Convert to ordinary shares	**(4,091,943)**
At December 31, 2018	**—**
At January 1, 2017	1,560,194
Issuance of series C convertible redeemable preferred shares	332,465
Changes in fair value of convertible redeemable preferred shares	1,285,496
Currency translation differences	(135,982)
At December 31, 2017	3,042,173

The management has used the discounted cash flow method to determine the underlying equity fair value of the Group and adopted the equity allocation method to determine the fair value of convertible redeemable preferred shares as of each date of issuance and at each reporting date. Key assumptions at the issuance and reporting date are set as below:

	Discount rate	**Risk-free interest rate**	**Volatility**
December 31, 2017	18.0%	2.17%	38.74%

Discount rate was estimated by weighted average cost of capital as of each appraisal date. The management estimated the risk-free interest rate based on the yield of US Treasury bonds with a maturity life equal to period from the respective appraisal dates to expected redemption/liquidation date. Volatility was estimated at the dates of appraisal based on average of historical volatilities of the comparable companies in the same industry for period from the respective appraisal dates to expected redemption/liquidation date. In addition to the assumptions adopted above, the Group's projections of future performance were also factored into the determination of the fair value of convertible redeemable preferred shares on appraisal date.

Changes in fair value are recorded in "Fair value loss of convertible redeemable preferred shares" in the consolidated statement of comprehensive income.

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28 Other liabilities

	As at December 31, 2018 RMB'000	2017 RMB'000
Other payables (i)	**343,550**	440,107
Contract liabilities (ii)	**50,492**	—
	394,042	440,107

(i) Other payables

	As at December 31, 2018 RMB'000	2017 RMB'000
Accrued service fees	**97,929**	153,604
Deposits collected from borrowers	**85,181**	125,313
Due to financial institutions	**81,636**	12,040
Interest payable to non-related parties	**38,948**	43,149
Employee benefit liability	**11,615**	76,848
Due to related parties	**752**	2,394
Others	**27,489**	26,759
	343,550	440,107

(ii) Contract liabilities

	As at December 31, 2018 RMB'000	2017 RMB'000
Membership fees received in advance	**50,492**	—
	50,492	—

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29 Share capital and share premium

	Number of Ordinary shares *Shares'000*	Share capital *RMB'000*	Share premium *RMB'000*
At January 1, 2017	142,857	257,985	—
Issuance of ordinary shares to employees *(Note 31)*	37,848	136,477	—
At December 31, 2017	180,705	394,462	—
At January 1, 2018	**180,705**	**394,462**	**—**
Changes on initial application of par value	**—**	**(379,823)**	**379,823**
Shares issued upon Initial Public Offering	**72,382**	**5,982**	**1,145,200**
Conversion of preferred shares to ordinary shares	**248,027**	**20,460**	**4,071,483**
Issuance of ordinary shares to employees *(Note 31)*	**133**	**12**	**1,000**
Shares repurchased and cancelled	**(1,760)**	**(155)**	**(15,580)**
At December 31, 2018	**499,487**	**40,938**	**5,581,926**

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30 Reserves

	Share option reserves *RMB'000*	Translation reserve *RMB'000*	Other reserves *RMB'000*	Total *RMB'000*
As at January 1, 2018	**29,546**	**31,405**	**—**	**60,951**
Changes on initial application of IFRS 9 *(Note 2.2)*	**—**	**—**	**(47,055)**	**(47,055)**
Restated balance as at January 1, 2018	**29,546**	**31,405**	**(47,055)**	**13,896**
Currency translation differences	**—**	**44,105**	**—**	**44,105**
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss	**—**	**—**	**(14,109)**	**(14,109)**
Conversion of preferred shares to ordinary shares	**—**	**—**	**61,164**	**61,164**
Issuance of ordinary shares to employees	**(211)**	**—**	**—**	**(211)**
Share-based payment *(Note 31)*	**275,610**	**—**	**—**	**275,610**
As at December 31, 2018	**304,945**	**75,510**	**—**	**380,455**
As at January 1, 2017	33,321	(139,968)	—	(106,647)
Currency translation differences	—	171,373	—	171,373
Share-based payment *(Note 31)*	10,126	—	—	10,126
Issuance of ordinary shares to employees *(Note 31)*	(13,901)	—	—	(13,901)
As at December 31, 2017	29,546	31,405	—	60,951

31 Share-based payments

Pre-IPO share option schemes

The Board approved the establishment of three pre-IPO share option schemes respectively on March 1, 2016 (the "**2016 ESOP**") and March 1, 2018 (the "**2017 ESOP I**" and the "**2017 ESOP II**", together with the 2016 ESOP, the "**Pre-IPO Share Option Schemes**"). The purpose of the Pre-IPO Share Option Schemes is to provide an incentive for the key employees, directors and consultants of the Group or such other employees to continue and improve their services with the Group and to improve the operating efficiency of the Group. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The overall limit on the number of underlying shares which may be issued pursuant to each of the Pre-IPO Share Option Schemes are shown in the table below.

Pre-IPO Share Option Schemes	Number of Shares issuable under each pre-IPO share option scheme
2016 ESOP	20,932,502
2017 ESOP I	46,516,997
2017 ESOP II	158,507,724

The granted share options have a contractual maximum option period of five years and the exercise prices are US$0.8735, US$1.6123 and US$1.6123 per share for 2016 ESOP, 2017 ESOP I and 2017 ESOP II, respectively.

Except as provided otherwise in the grant letters or offered in any other form by the Board, the vesting dates and proportion of shares that will vest on each vesting date are shown in the table below.

	Vesting date	Proportion of shares
2016 ESOP		
	December 31, 2016	One-third
	December 31, 2017	One-third
	December 31, 2018	One-third
2017 ESOP I and 2017 ESOP II		
	May 9, 2019	One-third
	May 9, 2020	One-third
	May 9, 2021	One-third

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31 Share-based payments (Continued)

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

	Exercise Price in US$ per Share Option			Number of Share Options ('000)		
	2016 ESOP	2017 ESOP I	2017 ESOP II *(i)*	2016 ESOP	2017 ESOP I	2017 ESOP II *(i)*
Outstanding balance as at January 1, 2018	0.8735	—	—	20,933	—	—
Granted	—	1.6123	1.6123	—	46,517	158,508
Lapsed	—	—	—	—	—	(132,393)
Exercised (ii)	0.8735	—	—	(133)	—	—
Outstanding balance as at December 31, 2018	0.8735	1.6123	1.6123	20,800	46,517	26,115

(i) Share options granted under the 2017 ESOP II are divided into three tranches, being Series A, Series B and Series C options, representing a total of 26,114,819 Shares, 29,016,466 Shares and 103,376,439 Shares, respectively. Each tranche of the options granted under the 2017 ESOP II shall vest upon the pre-listing market capitalization of the Group, immediately prior to listing of the Group on June 21, 2018 ("**Listing**"), meeting specified thresholds. Series A, series B and series C options shall vest if the pre-listing market capitalization of the Group immediately prior to Listing exceeds US$1.2 billion, US$1.6 billion and US$2.4 billion respectively. Such pre-listing market capitalization is calculated with reference to, among other things, the final offer price of the shares in the listing ("**Offer Shares**"), the number of Shares in issue and the number of Shares to be issued pursuant to the exercise of the 2016 ESOP and 2017 ESOP I. Based on the offer price of HK$20.00 per Offer Share, the Series B and Series C options granted pursuant to the 2017 ESOP II lapsed upon Listing.

(ii) For the year ended December 31, 2018, the proceeds of RMB801,000 (2017: RMB122,576,000) arising from the exercise of share options are credited to capital reserve.

Fair value of share options granted under the Pre-IPO share option schemes

The Group estimated the risk-free interest rate based on the yield of US treasury bonds with a maturity life equal to the option life of the share option. Volatility was estimated at the grant date based on average of historical volatilities of comparable companies with terms commensurate with the time to maturity of the share options. Dividend yield, exercise multiple and post-vesting forfeiture rate are based on management estimation at the grant date.

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31 Share-based payments (Continued)

Based on fair value of the underlying ordinary share, the Group has used a binomial option-pricing model to determine the fair value of the share options as at the grant date. The weighted average fair values of 2017 ESOP I share options and 2017 ESOP II share options granted on May 2018 were US$0.5041 per share option. Key assumptions are set as below:

	May 2018
Option life (years)	5
Risk-free Interest rate	2.83%
Volatility	40.36%
Dividend yield	—

32 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

The Group has significant transactions with the following related parties for the year ended December 31, 2018.

(a) Names and relationships with related parties

Name	**Relationship**
Liu Sai Wang Stephen	Executive Director
Liu Sai Keung Thomas	Executive Director
Chen Penghui	Non-Executive Director
Liu Yang	Non-Executive Director
Ma Ting Hung	Non-Executive Director
Seek Ngee Huat	Non-Executive Director
Wu Chak Man	Non-Executive Director
Dong Ludwig	Former Director
Kwok Lim Ying	Parent of Liu Sai Wang Stephen
Ma Ting Yiu	Brother of Ma Ting Hung
Mok Mei Hing	Spouse of Dong Ludwig

The following transactions were carried out between the Group and its related parties. In the opinion of the directors of the Company, the related party transactions were carried out in the ordinary course of business and on arms' length and normal commercial terms negotiated between the Group and the respective related parties.

For the year ended December 31, 2018

32 Related party transactions (Continued)

(b) Borrowings from related parties

	As at December 31, 2018 RMB'000	2017 RMB'000
Borrowings		
Related parties	**90,249**	453,001

(c) Guarantee for related parties

The Group guaranteed certain loans of Mr. Liu Sai Wang, their chief executive officer and executive director. Pursuant to a guarantee agreement dated December 7, 2015, the Group agreed to act as guarantor for a HKD40 million loan (plus accrued interest) between Mr. Liu Sai Wang as the borrower and an independent third party as the lender. Pursuant to a deed of release of guarantor dated June 7, 2018, the guarantee provided by the Group has been released.

(d) Year end balances with related parties

	As at December 31, 2018 RMB'000	2017 RMB'000
Receivable from related parties		
Due from related parties	**—**	142,494

The grantees of the 2010 ESOP plan and the 2012 ESOP plan exercised their share options in December 2017 and the Company has received cash from the grantees in 2018.

	As at December 31, 2018 RMB'000	2017 RMB'000
Payable to related parties		
Due to related parties	**752**	2,394

The amounts due from/to related parties mentioned above are non-trade in nature.

32 Related party transactions (Continued)

(e) Transactions with related parties

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Interest expenses	**20,210**	43,139

(f) Key management personnel compensations

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services are shown below:

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Director's fee	**3,408**	1,090
Wages, salaries and bonuses	**4,257**	5,948
Pension costs-defined contribution plan	**50**	46
Other social security costs, housing benefits and other employee benefits	**1,825**	2,215
Share-based compensation expenses	**225,653**	1,268
	235,193	10,567

(g) Senior management's emoluments

The senior management's emoluments fell within the following bands:

	Year ended December 31, 2018	2017
Nil to HKD1,000,000	**—**	1
HKD1,000,001 to HKD1,500,000	**—**	—
HKD1,500,001 to HKD2,000,000	**—**	1
Over HKD2,000,000	**5**	3
	5	5

For the year ended December 31, 2018

33 Note to consolidated statements of cash flows

(a) Reconciliation from profit before income tax to cash used in operating activities:

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Loss before income tax from	**(948,421)**	(944,464)
Adjustments for:		
Provisions for loan impairment	**N/A**	1,397,199
Fair value change of loans to customers	**1,130,058**	N/A
Unwind of discount on allowances during the period	**—**	(19,177)
Impairment of other financial assets	**54,348**	20,240
Loss on early repayment	**—**	36,738
Depreciation and amortization	**31,430**	24,335
Loss on disposal of property and equipment, intangible assets	**831**	427
Share of net loss of associates accounted for using the equity method	**2,900**	6,368
Fair value gain	**(1,360)**	(545)
Fair value loss of convertible redeemable preferred shares	**1,047,156**	1,285,496
Share-based payment	**275,610**	10,126
Interest expenses paid	**974,770**	890,994
Listing expenses	**49,870**	6,869
Disposal gain	**(35,589)**	—
Changes in operating assets and liabilities:		
Decrease/(Increase) in loans to customers	**1,473,151**	(6,638,597)
Increase in contract assets and guarantee receivables	**(184,661)**	(160,068)
Decrease/(Increase) in other operating assets	**3,410,070**	(257,670)
(Decrease)/Increase in other operating liabilities	**(3,950,218)**	211,234
Cash used in operating activities	**3,329,945**	(4,130,495)

For the year ended December 31, 2018

33 Note to consolidated statements of cash flows (Continued)

(b) Net Debt Reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash and cash equivalents	**1,050,112**	568,196
Liquid investments (i)	**—**	110,545
Borrowings — repayable within one year (including overdraft)	**(6,884,796)**	(8,186,101)
Borrowings — repayable after one year	**(1,246,480)**	(2,877,032)
Net debt	**(7,081,164)**	(10,384,392)
Cash and liquid investments	**1,050,112**	678,741
Gross debt — fixed interest rates	**(8,130,612)**	(11,061,200)
Gross debt — variable interest rates	**(664)**	(1,933)
Net debt	**(7,081,164)**	(10,384,392)

For the year ended December 31, 2018

33 Note to consolidated statements of cash flows (Continued)

(b) Net Debt Reconciliation (Continued)

	Cash and cash equivalents	Liquid investments	Borrowings (non-current)	Borrowings (current)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2018	**568,196**	**110,545**	**(2,877,032)**	**(8,186,101)**	**(10,384,392)**
Foreign exchange adjustments	**(4,284)**	**—**	**(21,375)**	**(34,877)**	**(60,536)**
Cash flows	**486,200**	**(111,905)**	**(1,596,759)**	**4,584,868**	**3,362,404**
Other non-cash movements	**—**	**1,360**	**3,248,686**	**(3,248,686)**	**1,360**
As at December 31, 2018	**1,050,112**	**—**	**(1,246,480)**	**(6,884,796)**	**(7,081,164)**
As at January 1, 2017	289,889	—	(1,879,881)	(4,018,558)	(5,608,550)
Foreign exchange adjustments	(2,389)	—	17,147	36,882	51,640
Cash flows	280,696	110,000	(2,876,367)	(2,342,356)	(4,828,027)
Other non-cash movements	—	545	1,862,069	(1,862,069)	545
As at December 31, 2017	568,196	110,545	(2,877,032)	(8,186,101)	(10,384,392)

(i) Liquid investments comprise current investments that are traded in an active market, being the Group's financial assets held at fair value through profit or loss.

For the year ended December 31, 2018

34 Commitments

The Group has entered into outstanding operating lease commitments for certain office rental under non-cancellable leases. The lease terms are between 1 to 5 years, and the majority of lease agreements are renewable at the end of the lease at market rates.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year (inclusive)	**46,963**	48,099
1 to 2 years (inclusive)	**17,140**	29,869
More than 2 years	**12,216**	6,858
	76,319	84,826

Please refer to Note 2.1(b) for the impact on adoption of IFRS 16.

35 Dividends

No dividend has been paid or declared by the Company or the companies now comprising the Group during the year ended December 31, 2018 (2017: the same).

36 Contingent liability

The Group did not have any contingent liability as at December 31, 2018 (December 31, 2017: the same).

37 Subsequent events

Save as disclosed in the report, the following significant events took place subsequent to December 31, 2018:

On January 11, 2019, the Board adopted a share award scheme, in which all employees (including without limitation any directors) of the Group will be entitled to participate. Pursuant to the scheme rules, shares will be acquired by the independent trustee from the market, at the cost of the Company and be held on trust for the selected participants until they vest. Vested shares will be transferred at no cost to the selected participants. The maximum number of shares to be awarded under the scheme throughout its duration is 24,974,369 shares.

For the year ended December 31, 2018

38 Statement of financial position and reserves movement of the Company

(a) Statement of financial position — the Company

	As at December 31, 2018 RMB'000	2017 RMB'000
Assets		
Cash and cash equivalents	**97**	234
Investment in subsidiaries	**1,323,720**	1,326,248
Other assets	**1,617,316**	461,399
Total assets	**2,941,133**	1,787,881
Liabilities		
Convertible redeemable preferred shares	**—**	3,042,173
Other liabilities	**—**	55,623
Total liabilities	**—**	3,097,796
Equity/(Deficit)		
Share capital	**40,938**	394,462
Share premium	**5,581,926**	—
Reserves	**530,302**	80,895
Accumulated deficit	**(3,212,033)**	(1,785,272)
Total equity/(deficit)	**2,941,133**	(1,309,915)
Total liabilities and equity	**2,941,133**	1,787,881

The statement of financial position of the Company were approved by the Board of Directors on March 25, 2019 and was signed on its behalf

Ma Ting Hung
Director

Liu Sai Wang Stephen
Director

For the year ended December 31, 2018

38 Statement of financial position and reserves movement of the Company (Continued)

(b) Reserves movement of the Company

	Reserves RMB'000	Accumulated loss RMB'000
As at January 1, 2018	**80,895**	**(1,785,272)**
Changes on initial application of IFRS 9	**(47,055)**	**—**
Restated balance as at January 1, 2018	**33,840**	**(1,785,272)**
Loss for the year	**—**	**(1,365,597)**
Currency translation differences	**174,008**	**—**
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss	**(14,109)**	**—**
Conversion of preferred shares to ordinary shares	**61,164**	**(61,164)**
Issuance of ordinary shares to employees	**(211)**	**—**
Share-based payment *(Note 31)*	**275,610**	**—**
As at December 31, 2018	**530,302**	**(3,212,033)**
As at January 1, 2017	(46,686)	(479,572)
Loss for the year	—	(1,305,700)
Currency translation differences	131,356	—
Share-based payment *(Note 31)*	10,126	—
Issuance of ordinary shares to employees *(Note 31)*	(13,901)	—
As at December 31, 2017	80,895	(1,785,272)

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