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
Stock Code: 40498

Annual Report 2020

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Ma Ting Hung *(Chairman)*
Mr. Yip Ka Kay

Independent Non-Executive Directors

Mr. Chen Penghui
Mr. Fang Yuan
Mr. Wu Chak Man

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Ma Ting Hung
Mr. Cha Johnathan Jen Wah

COMPANY SECRETARY

Mr. Cha Johnathan Jen Wah

REGISTERED OFFICE

4th Floor
Harbour Place
103 South Church Street
P.O. Box 10240
Grand Cayman KY1-1002
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1918, 19/F
Two Pacific Place
88 Queensway, Hong Kong
Telephone : (852) 2918 5500
Facsimile : (852) 2918 0859
E-mail : ir@vcredit.com

PRINCIPAL PLACE OF BUSINESS IN PRC

28/F, Tower 1
88 North Sichuan Road
Shanghai 200085
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE*

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

* *with effect from March 29, 2021, will change to:*

Harneys Fiduciary (Cayman) Limited
4th Floor
Harbour Place
103 South Church Street
P.O. Box 10240
Grand Cayman KY1-1002
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG LEGAL ADVISER

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

AUDITOR

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

PRINCIPAL BANKER

China Construction Bank
(Suzhou Yuanqu Branch)

STOCK CODES

2003 (shares)
5064 (US$100 million 11.0% senior notes due 2021)
40498 (US$85 million 11.0% senior notes due 2022)

WEBSITE

https://www.vcredit.com

The Chairman's Statement

Dear Shareholders,

We had a very challenging start to 2020 with the outbreak of the Covid-19 pandemic occurring in January and the subsequent imposition of lockdown and social distancing measures to limit its transmission which interfered with and seriously hampered business activities and people's movement and daily lives. Throughout the lockdown period, our Company worked assiduously to maintain our operations as normal as possible whilst safeguarding the wellbeing of our staff. However, unsurprisingly, the effects of the Covid-19 pandemic on our operations were acute, leading to a weakening in credit demand, increase in delinquency rates and deterioration in asset quality and an adverse impact on our financial performance for the first half of the year.

In addition to the effects of the Covid-19 pandemic which made it necessary for us to adapt our business, new regulations promulgated prohibiting certain collection practices and curbing uses of personal data as well as the release of serial regulatory guidelines took effect in 2020 and necessitated further evolutionary changes to our operational environment. To ensure our business operated at optimal efficiency in line with these market conditions, we adjusted our business strategy and implemented new policies and measures including a more proactive and directed management of our loan origination in the first half of 2020, an upgrading of our risk model to further improve our ability to efficiently evaluate customers' credit profiles and default risk as well as an upgrading of our credit-scoring algorithms to achieve better segmentation of different categories of customers. As a result of the measures, we have migrated our loan portfolio towards better quality near prime and prime customers leading to an improvement in our asset quality and risk performance metrics. Other initiatives undertaken in 2020 include building greater brand loyalty and repeat business from, and tailoring our products to incentivise, our growing number of better quality near prime and prime borrowers. In this, we have been aided by our life-time customer level valuation framework that allows us to analyse customer characteristics and create ideal customer portraits derived from common characteristics of real customers. This has proved effective for us and is now integral in our identification of target quality customers and determining strategic decisions to accomplish precision marketing, marketing penetration and marketing spending on a more informed basis and with a better understanding of our desired customers.

Recovery from the impact of the Covid-19 pandemic began at the start of the second quarter of 2020, made possible by the effectiveness of firm and decisive action taken by the Chinese Central Government and local governments to contain and mitigate the impact of the Covid-19 pandemic. Coupled with the various initiatives and measures we implemented to mitigate the combined effects of the Covid-19 pandemic and tighter regulation, our operations likewise also began to improve at the same point and our financial performance for the second half of 2020 was considerably better than the first half and even better than the second half of 2019, so that by the end of the year our business had largely recovered. Whilst the effects of the Covid-19 pandemic on our operations were profound and remained a drag on our financial performance for the full year, our business strategy and ability to adapt and steer a course through the difficulties of 2020 has shown our operations to be robust and seen us emerge from 2020 in a stronger position than we entered it with our asset quality strengthened and delinquency ratios well under control.

During 2020, tightening market regulations created even more challenges for participants in the competitive consumer finance and fintech industries to the extent that almost all P2P lending platforms have now fully exited the sector as a consequence, leaving our Company in China's consumer finance industry as the sole non-bank on-line platform whose customer base is comprised of near prime and prime customers. As we operate through appropriately licensed entities in collaboration with institutional funding partners, our business model differentiates us from the P2P platforms and supports our strategy, complements our approach and ambitions and positions us well to navigate the tighter regulations of the current market and beyond and to sustain us to more opportunities and a larger market share. In line with our business strategy, we entered into collaborations with sixteen new funding partners in 2020, raising to sixty-one our total number of institutional funding partners.

Due to our persistent pursuit for growth with quality as well as technology-driven cost reduction and efficiency improvement, we implemented some personnel re-engineering and downsizing following the negative impact of the Covid-19 pandemic. I am confident that our talented employees and our strong fundamentals will help us pursue and sustain long-term growth.

2021 marks the 15th anniversary of the founding of our business and in these 15 years we have established ourselves as a trusted brand and a leading independent player at the forefront of China's consumer finance industry. Through our dynamic culture and policy of investing in technology and talented personnel, our business continues to grow together with our customers, offering innovative, best-in-class products and services to support them in achieving their financial goals.

Thanks to our ability to respond on a timely basis and adapt our business strategy swiftly to unexpected external changes and evolving market regulations and our ongoing effort to improve the quality of our customer base, I am confident our business and operations are stronger and more resilient.

I would like to take this opportunity, on behalf of the Board of Directors and the Company, to express our appreciation to the dedication of our employees and support of our business partners, funding partners and shareholders.

Ma Ting Hung
Chairman

Hong Kong, March 24, 2021

Letter from the CEO

Dear Shareholders,

2020 has been another turbulent year for the consumer credit industry in China. VCREDIT has faced the headwinds caused by the Covid-19 pandemic, as all businesses have had to, and an ever-tightening regulatory environment and taken a comprehensive set of actions to adapt our business. Despite a tough first quarter at the beginning of 2020, we started gaining positive momentum from the start of the second quarter of 2020 and thereafter, throughout the rest of the year, significantly improved our asset quality as well as achieve growth in our loan origination volume. Our operating and financial performance, especially in the second half of 2020, is tangible evidence that our initiatives have been critical in transforming our business from the difficulties we encountered at the beginning of the year.

OPERATIONAL PERFORMANCE

Starting from September 2019, there has been a series of tightening policies and regulations affecting our business, such as a crackdown on predatory loan-collection practices and stricter enforcement of personal data protection. Sensing the oncoming impact of these regulations and policies and the resulting uncertainties lying ahead, we made it our priority to migrate our loan portfolio towards better near prime and prime segments. We adopted a cautious approach to continue to optimize our credit risk model, which leverages data from multiple sources, including credit data from the Credit Reference Center of the People's Bank of China ("**PBOC**") and data from other major internet ecosystems in China. The credit risk model is the backbone of our streamlined customer acquisition and underwriting policies.

We believe our migration initiatives have been effective as we already began seeing their benefits in the second half of 2020, which was greatly encouraging, as our operational metrics improved considerably and by the end of 2020 were even better than before the outbreak of the Covid-19 pandemic. Our first payment delinquency ratio has come down to a very low level, demonstrating the effectiveness of our credit risk model and underwriting policies. Our M1-M3 ratio and M3+ ratio also fell correspondingly to 2.5% and 2.9%, respectively, by the end of 2020. The continuous downward trend in our delinquency metrics reflects an improvement in our asset quality and profitability.

As China gradually recovered from the Covid-19 pandemic during the year, and coupled with our adjustments to our business strategy and policies, our loan origination volume reached RMB30.77 billion for the full year, which is more or less the same as for 2019. An important aspect to our loan origination has been our ability to increase credit-worthy customers' repeat borrowing activities, so improving the LTV (Life Time Value) of each newly acquired customer.

Our collaborations with licensed financial and institutional funding partners is a key aspect of our business and, during the year, we added 16 additional institutional funding partners with diverse backgrounds. Our proficiency in attracting new institutional funding partners is critical to the expansion and sustainability of our business and we will work to build on and realise the potential synergies these collaborations bring to further optimize our operations and improve customer experience. Through our cooperations we have developed good relations, understanding and trust with our institutional funding partners and we have been able to work with them to reduce our funding costs which have helped us mitigate the cap on fee rates charged to customers imposed by tightened regulation. As an indicator of how closely we work with our institutional funding partners, for the year ended December 31, 2020, our total loan origination volume consummated through credit-enhanced and pure loan facilitation structures amounted to RMB20.11 billion or 65.4% of total loan origination volume, and total loan origination volume consummated through direct and trust structures amounted to RMB10.66 billion or 34.6% of total loan origination volume.

FINANCIAL PERFORMANCE

The Covid-19 pandemic has inevitably affected our financial performance in 2020. We recorded a net loss of RMB869.6 million and an adjusted net loss of RMB794.8 million for the year ended December 31, 2020, compared with a net profit of RMB64.8 million and an adjusted net profit of RMB368.2 million for the year ended December 31, 2019. We experienced a decrease in loan origination volume and an increase in delinquency rates for loan repayments in the first half of 2020 primarily due to the Covid-19 pandemic which resulted in a decrease in total income and increases in the fair value loss and loss from guarantee in the Group's loan portfolio for the same period.

However, we are pleased to report that we restored profitability and delivered a net profit of RMB211.7 million and an adjusted net profit of RMB247.2 million for the six months ended December 31, 2020, compared to a net loss and an adjusted net loss of RMB1,081.2 million and RMB1,042.0 million, respectively, for the six months ended June 30, 2020. Additionally, our net profit for the six months ended December 31, 2020 was even better than the net profit and adjusted net profit of RMB58.6 million and RMB175.4 million, respectively, for the six months ended December 31, 2019. Our improved financial performance for the second half of 2020 was driven by our risk management enhancements and the gradual recovery of the Chinese economy as it overcame the initial effects of the Covid-19 pandemic. Over the same period, the fair value loss decreased by RMB589.0 million compared with the second half of 2019 and we realised a gain from guarantee of RMB322.2 million for the second half of 2020 compared to a loss from guarantee of RMB202.2 million for the second half of 2019.

Our total income decreased by 33.4% to RMB2,573.2 million for the year ended December 31, 2020, compared to RMB3,864.4 million the year ended December 31, 2019, as a result of both reduced pricing and business disruption due to the Covid-19 pandemic. As normal business began to return alongside a recovery from the Covid-19 pandemic in the second half of 2020, we saw an increase in total income by 13.7% to RMB1,369.3 million for the six months ended December 31, 2020, compared to RMB1,203.8 million for the six months ended June 30, 2020. The increase in total income for the second half of 2020 was attributable to the growth in loan origination volume and improved operational efficiency while the decline in our funding costs partially offset the impact of fee rate caps. We also saw a corresponding rise in loan facilitation service income which increased by 99.5% to RMB475.1 million for the six months ended December 31, 2020, compared to RMB238.2 million for the six months ended June 30, 2020, as we strategically managed business between our trust lending and loan facilitation structures.

Our operating expenses excluding share-based compensation expenses increased by 8.0% to RMB1,118.8 million for the year ended December 31, 2020 as we invested more resources and strengthened our 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.

To further strengthen our capitalization, we completed an exchange offer pursuant to which we issued and delivered US$76,943,000 11.0% senior notes due 2022 on December 3, 2020 in exchange for US$72,250,000 of senior notes due 2021 and raised additional funding by issuing US$8,057,000 11.0% additional senior notes due 2022.

OUTLOOK AND STRATEGIES

The consequences of the Covid-19 pandemic are still playing out. Financial markets have shown signs of improvement since the middle of 2020, but uncertainties continue to weigh on the real economy around the world. We will monitor market trends and are confident that the current difficulties will eventually come to an end and the global economy will recover in the coming years. We will continue our efforts in better positioning ourselves and enhancing our technological capability to capture market opportunities and to overcome challenges in our evolving market and our team will continue working closely with our partners to provide high quality and innovative products to our customers.

We are now operating in an industry under stricter though clearer supervision as new laws and regulations are promulgated that impose higher requirements on risk control and operation capabilities. In July 2020, the China Banking and Insurance Regulatory Commission ("**CBIRC**") promulgated the "Interim Measures for the Administration of Internet Loans by Commercial Banks" to regulate the online loan business of commercial banks; in September 2020, the CBIRC issued the Notice on Strengthening the Supervision and Management of small loan companies (《關於加強小額貸款公司監督管理的通知》), or Circular 86, to regulate the operation of small loan companies; and in November 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)》) which are expected to tighten the approval and licensing procedures for and access to the Chinese online micro-credit market. It seems these regulatory changes will raise the requirements for new entrants and impose higher standards on existing businesses and, therefore, should favor leading consumer finance players with stronger risk management and higher regulatory adaptability. We see opportunities to expand our service scope and upgrade our data driven technology empowered digital platform in the changing regulatory environment to maximise our long-term strategic goals.

Looking forward, we remain cautiously optimistic that we can keep pace with the evolving marketplace and optimize our corporate strategy of creating long-term value for our shareholders.

Sincerely,

Liu Sai Wang Stephen
Executive Director and Chief Executive Officer

Hong Kong, March 24, 2021

FINANCIAL HIGHLIGHTS

	For the year ended December 31,			For the six months ended December 31,		
	2020	2019	Change	**2020**	2019	Change
	RMB million	*RMB million*		***RMB million***	*RMB million*	
Total income	**2,573.2**	3,864.4	-33.4%	**1,369.3**	2,004.1	-31.7%
Interest type income	**2,017.3**	2,642.1	-23.6%	**706.7**	1,489.4	-52.6%
Less: interest expenses	**(715.9)**	(862.2)	-17.0%	**(269.4)**	(466.2)	-42.2%
Loan facilitation service fees	**713.3**	1,247.4	-42.8%	**475.1**	674.5	-29.6%
Other income	**558.5**	837.1	-33.3%	**456.9**	306.4	49.1%
Operating (Loss)/Profit	**(1,051.7)**	154.4	NM	**287.3**	97.0	196.2%
Net (Loss)/Profit	**(869.6)**	64.8	NM	**211.7**	58.6	261.1%
Non-IFRS Adjusted Operating (Loss)/Profit (1)	**(977.0)**	457.8	NM	**322.9**	213.8	51.0%
Non-IFRS Adjusted Net (Loss)/Profit (2)	**(794.8)**	368.2	NM	**247.2**	175.4	40.9%

Notes:

(1) Non-IFRS Adjusted Operating (Loss)/Profit is defined as operating (loss)/profit for the years ended December 31, 2020 (the "**Year**") and December 31, 2019, respectively, excluding share-based compensation expenses. For more details, please see the section headed "Management's Discussion and Analysis — Non-IFRS Measures".

(2) Non-IFRS Adjusted Net (Loss)/Profit is defined as net (loss)/profit for the Year and for the year ended December 31, 2019, respectively, excluding share-based compensation expenses. For more details, please see the section headed "Management's Discussion and Analysis — Non-IFRS Measures".

BUSINESS REVIEW AND OUTLOOK

During 2020, VCREDIT Holdings Limited ("**Company**" or "**we**" and together with our subsidiaries, "**Group**") have achieved further technology improvement and referred more prime and near-prime customers under-served by traditional financial institutions to our licensed funding partners. Although our business was adversely affected by the impact of the Covid-19 pandemic, we were also able to improve our operational metrics, realising by the end of the Year even lower delinquency ratios than pre-pandemic levels, which we believe is evidence of the sophistication of our technology and effectiveness of our risk management.

In addition to the effects of the Covid-19 pandemic, there was a significant tightening-up of the regulatory framework for China's consumer finance industry causing the exit of almost all P2P lending platforms from the market. Our policy of cooperating only with licensed financial institutions as our partners has enabled us to comply with new regulations and grow our operations. During the Year, we added 16 new institutional funding partners. These cooperations are a critical element to our business strategy and to the sustainability and expansion of our business.

Business Review

We saw growth in the number of our new borrowers during the Year, with an increase in the number of new registered users by 14.4% as compared to 2019. We achieved this growth through our optimized customer acquisition model which enables us to use more effective precision marketing and enhance our risk model to target higher-quality customers. As customer acquisition becomes more and more challenging, increasing the utilization of existing reliable high-quality customers is essential for our business. By further improving a customer life-time value model, we are able to better identify the characteristics of customers who will bring long-term value and profit to us. Having the ability to realize customer identification by creating customer portraits based on the common characteristics of these customers helps us define the scope of our customers and expand our customer base and support the long-term or short-term business goals of our Company on a large scale. We succeeded in improving retaining high-quality customers and reducing customer churn rate by more actively servicing and encouraging repeat borrowing.

Moreover, we expanded our customer acquisition channels on different industry platforms in 2020. We sourced our customers primarily through online advertisements principally through feeds and other types of retailers to embed our products in the service they provide to their customers. In order to acquire more customers with customized products, we have partnered with different operators including OPPO, Xiaomi and China Telecom. At the same time, we raised the proposition of feeds advertisements to increase exposure 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 places our products closer to customers' daily lives. 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 devise ways to reach more prime customers and improve cost efficiency.

During the Year, we implemented a multi-source scorecard to increase our efficiency to evaluate customers' credit profiles and the likelihood of default. Optimizing credit-scoring algorithms enables us to better segment different categories of customers and we believe we have successfully realized the migration of our customer base to higher-quality prime and near prime customers. We believe that technology-advancement is an important driving force for our business development.

We made an investment in Guoren Property and Casualty Insurance Co., Ltd. (國任財產保險股份有限公司) ("**Guoren**") in 2020 by acquiring a 0.27% interest in the equity of Guoren. We believe this strengthens our strategic relationship with Guoren and should allow us to capture new business opportunities in the tech insurance sector by allying our consumer finance strategy to innovative products offered by Guoren to its customers, which we believe can be achieved at a cost that benefits both Guoren and the customers.

Operating Review

Products and Services

We primarily offer two credit products through our pure online loan origination processes: (1) credit cards balance transfer products, and (2) consumption credit products, both of which are installment-based. For the Year, the total number of transactions was 2.5 million. The average term of our credit products was approximately 9.1 months and the average loan size was approximately RMB12,220.

The following tables set forth a breakdown of the amount of our loan origination volume by product line for the years and periods indicated.

	For the year ended December 31,			
	2020		2019	
Loan Origination Volume	***RMB million***	**%**	*RMB million*	%
Credit card balance transfer products	**6,173.0**	**20.1%**	13,068.3	38.7%
Consumption credit products	**24,600.0**	**79.9%**	20,678.1	61.3%
Total	**30,773.0**	**100.0%**	33,746.4	100.0%

	For the six months ended December 31,			
	2020		2019	
Loan Origination Volume	***RMB million***	**%**	*RMB million*	%
Credit card balance transfer products	**3,402.8**	**19.5%**	6,404.6	33.1%
Consumption credit products	**14,056.8**	**80.5%**	12,938.9	66.9%
Total	**17,459.6**	**100.0%**	19,343.5	100.0%

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

	For the year ended December 31,			
	2020		2019	
Loan Origination Volume	***RMB million***	**%**	*RMB million*	%
Direct Lending	**224.7**	**0.7%**	295.1	0.9%
Trust Lending	**10,439.9**	**33.9%**	15,333.3	45.4%
Credit-enhanced loan facilitation	**19,969.2**	**64.9%**	16,254.5	48.2%
Pure loan facilitation	**139.2**	**0.5%**	1,863.5	5.5%
Total	**30,773.0**	**100.0%**	33,746.4	100.0%

	For the six months ended December 31,			
	2020		2019	
Loan Origination Volume	***RMB million***	**%**	*RMB million*	%
Direct Lending	**155.0**	**0.9%**	79.7	0.4%
Trust Lending	**5,390.5**	**30.9%**	10,276.4	53.1%
Credit-enhanced loan facilitation	**11,914.1**	**68.2%**	8,497.0	44.0%
Pure loan facilitation	**—**	**—**	490.4	2.5%
Total	**17,459.6**	**100.0%**	19,343.5	100.0%

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

	As at December 31,			
	2020		2019	
Outstanding Balance of Loans to Customers	*RMB million*	%	*RMB million*	%
Credit card balance transfer products	**2,820.8**	**20.1%**	6,092.7	31.8%
Consumption credit products	**11,143.0**	**79.2%**	11,391.6	59.5%
Online-to-offline credit products	**101.6**	**0.7%**	1,653.4	8.7%
Total	**14,065.4**	**100.0%**	19,137.7	100.0%

Asset Quality

Throughout the Year, we have had to adjust our business approach to manage the impact of the Covid-19 pandemic. With the outbreak of the Covid-19 pandemic and the implementation of lockdown measures at the beginning of the Year, our asset quality experienced sudden but temporary volatilities in the first half of 2020. These circumstances prompted us to adjust our lending policy and introduce measures to enhance our credit and risk management systems to protect our asset quality. With the strong action and firm direction of the Central Government to help restore normal life in China, we started to see a recovery in the macro environment from the second quarter of 2020. This, allied to our credit and risk management adjustments, resulted in gradual improvements to our key indicators of asset quality throughout. Among our key leading indicators of asset quality, our first payment delinquency ratio (1) declined to 0.4% in the fourth quarter of 2020 from 2.0% at the end of the first quarter of 2020, which is the best first payment delinquency ratio that we have ever achieved. Meanwhile, our M1-M3 ratio (2) and M3+ ratio (3) respectively decreased to 2.5% and 2.9% in the fourth quarter of 2020 from 7.4% and 7.1% in the second quarter of 2020.

Given the adverse impact of the Covid-19 pandemic on consumption and repayment ability and tighter regulations affecting collection and use of personal data, we continued optimizing our risk management framework to ensure sustainable enhancement in asset quality, such as revamping risk models and policies, optimizing life-time customer level valuation and running multiple high impact tests to better differentiate customers and significantly improve risk performance. We believe that our ongoing overall first payment delinquency ratio will be around 0.5% in 2021. We will continue to monitor the situation closely and catch changes within the industry to better manage uncertainties.

	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4
First payment delinquency ratio (1)	1.7%	2.1%	2.4%	2.1%	**2.0%**	**0.8%**	**0.6%**	**0.4%**
M1-M3 ratio (2)	4.2%	3.7%	3.4%	4.3%	**6.3%**	**7.4%**	**3.6%**	**2.5%**
M3+ ratio (3)	3.7%	3.3%	3.0%	3.2%	**4.7%**	**7.1%**	**5.6%**	**2.9%**

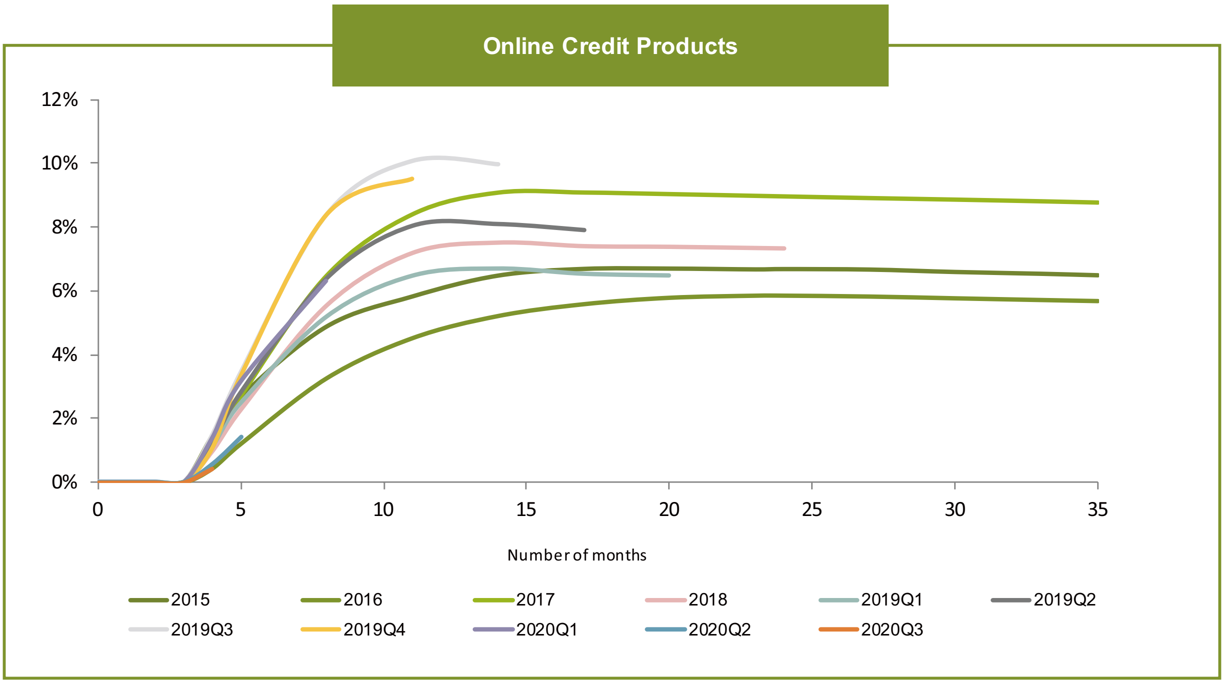
Notes:

(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 online loans which have been delinquent up to 3 months, by (ii) the total outstanding balance of loans to customers excluding offline credit products, which had a negligible balance of RMB101.6 million as at December 31, 2020.

(3) M3+ ratio is calculated by dividing (i) the outstanding balance of online loans which have been delinquent for more than 3 months and have not been written off by (ii) the total outstanding balance of loans to customers excluding offline credit products, which had a negligible balance of RMB101.6 million as at December 31, 2020.

The following diagrams set forth our latest Cohort-Based M3+ Delinquency Ratio(4).



Note:

(4) Cohort-Based M3+ Delinquency Ratio is defined as (i) the total amount of principal for the online 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 loans in such vintage excluding offline credit products, which had a negligible balance of RMB101.6 million as at December 31, 2020.

Outlook and Strategies

We expect the Covid-19 pandemic and its effects to be mitigated as the rollout of vaccines for the Covid-19 pandemic within China and around the world gathers pace leading to further improvements in our operating conditions. We will adjust our business approach as these changes allow. We are committed to seeking steady growth by serving higher-quality prime and near-prime borrowers with offerings of innovative financial products delivered in collaboration with our licensed funding partners and business partners, and to bring value to the shareholders of the Company (the "**Shareholders**"). Therefore, moving forward, we intend to continue to execute the following strategies to maintain our leading market position:

- Continue to invest in research and development to empower our technological and risk management capability
- Maintain precision acquisition of higher-quality customers and optimize our products to improve customer service experience
- Further enhance and deepen mutually beneficial relationships with our funding and business partners
- Strengthen compliance capability under changing regulatory environment
- Inspire a dynamic culture and support employees' development and growth needs

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following selected consolidated statements of comprehensive income for the six months ended December 31, 2019 and 2020 have been derived from our audited consolidated annual financial information and related notes included elsewhere in this annual report.

Total Income

We derived our total income through (i) net interest type income, (ii) loan facilitation service fees, and (iii) other income. Our total income decreased by 33.4% to RMB2,573.2 million for the Year, compared to RMB3,864.4 million for the year ended December 31, 2019, primarily due to a decrease in loan origination volume and an increase in delinquency rates as a result of the impact of the Covid-19 pandemic during the first quarter of 2020. Our total income decreased by 31.7% to RMB1,369.3 million for the second half of 2020, compared to RMB2,004.1 million for the second half of 2019, primarily due to a decrease in our trust lending structure volume to maintain our liquidity. However, we have benefitted from continued improvements in the macro economy beginning from the second quarter of 2020 and our robust strategy in migrating to higher-quality customers.

Net Interest Type Income

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

Net Interest Type income	For the year ended December 31, 2020 RMB'000	2019 RMB'000	For the six months ended December 31, 2020 RMB'000	2019 RMB'000
Interest type income	**2,017,326**	2,642,081	**706,740**	1,489,448
Less: interest expenses	**(715,915)**	(862,174)	**(269,431)**	(466,235)
Total	**1,301,411**	1,779,907	**437,309**	1,023,213

For the Year, we recorded interest type income of RMB2,017.3 million, which was generated from loans to customers originated under direct lending and trust lending structures. The decrease in interest type income for the Year compared to RMB2,642.1 million for the year ended December 31, 2019, and decrease for the second half of 2020 compared to RMB1,489.4 million for the second half of 2019, was primarily due to a decrease in the average outstanding loan balance of our trust lending structure, reflecting our strategy to expand our loan facilitation structure which allows us to maintain liquidity and manage cash flow better.

Interest expenses decreased by 17.0% to RMB715.9 million for the Year, compared to RMB862.2 million for the year ended December 31, 2019. The decrease in interest expenses primarily resulted from the decrease in the average borrowing balance and weighted interest rate during the Year.

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

	For the year ended December 31,			
	2020		2019	
Interest Type Income	RMB'000	%	RMB'000	%
Credit card balance transfer products	**483,059**	**23.9%**	773,222	29.3%
Consumption credit products	**1,476,210**	**73.2%**	1,392,506	52.7%
Online-to-offline credit products	**58,057**	**2.9%**	476,353	18.0%
Total	**2,017,326**	**100.0%**	2,642,081	100.0%

	For the six months ended December 31,			
	2020		2019	
Interest Type Income	RMB'000	%	RMB'000	%
Credit card balance transfer products	**157,844**	**22.3%**	386,188	25.9%
Consumption credit products	**539,188**	**76.3%**	948,732	63.7%
Online-to-offline credit products	**9,708**	**1.4%**	154,528	10.4%
Total	**706,740**	**100.0%**	1,489,448	100.0%

Loan Facilitation Service Fees

Loan facilitation service fees decreased by 42.8% to RMB713.3 million for the Year, compared to RMB1,247.4 million for the year ended December 31, 2019. The decrease in loan facilitation service fees was driven by a decrease in facilitation fee rates. Loan facilitation service fees decreased by 29.6% to RMB475.1 million for the second half of 2020, compared to RMB674.5 million for the second half of 2019, primarily due to a decrease in loan facilitation fee rates notwithstanding an increase of loan origination volume commensurate with the recovering of the Covid-19 pandemic environment.

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 and periods indicated.

	For the year ended December 31,		For the six months ended December 31,	
	2020	2019	**2020**	2019
Loan Facilitation Service Fees	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Credit-enhanced loan facilitation	**702,965**	1,147,150	**474,751**	630,316
Pure loan facilitation	**10,361**	100,227	**402**	44,196
Total	**713,326**	1,247,377	**475,153**	674,512

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

	For the year ended December 31,		For the six months ended December 31,	
	2020	2019	**2020**	2019
Loan Facilitation Service Fees	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Upfront loan facilitation service fees	**578,934**	1,119,343	**418,951**	584,347
Post loan facilitation service fees	**134,392**	128,034	**56,202**	90,165
Total	**713,326**	1,247,377	**475,153**	674,512

Other Income

Other income decreased by 33.3% to RMB558.5 million for the Year, compared to RMB837.1 million for the year ended December 31, 2019. The decrease in other income was primarily due to a decrease in referral fees, partially offset by the increase in gain from guarantees resulting from improvements in delinquency rates as we emerged from the adverse impact of the Covid-19 pandemic during the first half of 2020.

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

Other Income	For the year ended December 31, 2020 RMB'000	2019 RMB'000	For the six months ended December 31, 2020 RMB'000	2019 RMB'000
Penalty and service charges	**314,908**	327,228	**131,489**	202,134
Membership fees and referral fees	**301,808**	794,581	**761**	294,056
Government grants	**34,975**	—	**—**	—
Technology and professional service fees	**—**	28,927	**—**	11,711
Losses/(gains) from guarantee	**(99,368)**	(318,381)	**322,158**	(202,189)
Others	**6,091**	4,718	**2,455**	701
Total	**558,414**	837,073	**456,863**	306,413

Expenses

Origination and Servicing Expenses

Our origination and servicing expenses increased by 14.3% to RMB811.2 million for the Year, compared to RMB709.5 million for the year ended December 31, 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

Overall, our sales and marketing expenses decreased by 28.2% to RMB23.1 million for the Year, compared to RMB32.2 million for the year ended December 31, 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 44.5% to RMB280.3 million for the Year, compared to RMB505.4 million for the year ended December 31, 2019, mainly due to a decrease in personnel related expenses as a result of improved operating efficiency. Due to the lapse of share options of resigned employees, our share-based compensation decreased by 75.4% to RMB74.7 million for the Year, compared to RMB303.4 million for the year ended December 31, 2019.

Research and Development Expenses

Our research and development expenses decreased by 14.6% to RMB78.9 million for the Year, compared to RMB92.4 million for the year ended December 31, 2019, primarily due to overall cost savings in respect of non-essential research and development expenses.

Operating (Loss)/Profit

We recorded an operating loss of RMB1,051.7 million for the Year, compared to an operating profit of RMB154.4 million for the year ended December 31, 2019, primarily as a result of the adverse impact of the Covid-19 pandemic during the first quarter of 2020 and the decrease of interest income. We recorded an operating profit of RMB287.3 million for the second half of 2020, compared to an operating profit of RMB97.0 million for the second half of 2019, primarily due to improvement in delinquency rates as we migrated our loan portfolio towards better near prime and prime customers.

Net (Loss)/Profit

We recorded a net loss of RMB869.6 million for the Year, compared to a net profit of RMB64.8 million for the year ended December 31, 2019. We recorded a net profit of RMB211.7 million for the second half of 2020, compared to a net profit of RMB58.6 million for the second half of 2019, which is consistent with our operating profit for the same period.

Non-IFRS Adjusted Operating (Loss)/Profit

Our Non-IFRS adjusted operating loss was RMB977.0 million for the Year, compared to our Non-IFRS adjusted operating profit of RMB457.8 million for the year ended December 31, 2019, primarily because of the adverse impact of the Covid-19 pandemic during the first quarter of 2020 and the decrease of trust lending origination volume. Our Non-IFRS adjusted operating profit was RMB322.9 million for the second half of 2020, compared to our Non-IFRS adjusted operating profit of RMB213.8 million for the second half of 2019, primarily due to improved operating conditions as we emerged from the effects of the Covid-19 pandemic and improved asset quality as a result of implementing prudent credit risk management and optimizing our operations to strategically shift towards higher-quality borrowers which resulted in a decrease in the fair value loss and loss from guarantee in the loan portfolio of the Group.

Non-IFRS Adjusted Net (Loss)/Profit

Our Non-IFRS adjusted net loss was RMB794.8 million for the Year, compared to our Non-IFRS adjusted net profit of RMB368.2 million for the year ended December 31, 2019, which is in line with our Non-IFRS adjusted operating (loss)/profit.

Non-IFRS Measures

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

	For the year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Operating (Loss)/Profit	**(1,051,749)**	154,369
Add:		
Share-based compensation expenses	**74,723**	303,418
Non-IFRS Adjusted Operating (Loss)/Profit	**(977,026)**	457,787
Non-IFRS Adjusted Operating (Loss)/Profit Margin (1)	**-38.0%**	11.8%

	For the year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Net (Loss)/Profit	**(869,564)**	64,790
Add:		
Share-based compensation expenses	**74,723**	303,418
Non-IFRS Adjusted Net (Loss)/Profit	**(794,841)**	368,208
Non-IFRS Adjusted Net (Loss)/Profit Margin (2)	**-30.9%**	9.5%

	For the six months ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Operating Profit	**287,314**	97,006
Add:		
Share-based compensation expenses	**35,543**	116,812
Non-IFRS Adjusted Operating Profit	**322,857**	213,818
Non-IFRS Adjusted Operating Profit Margin (1)	**23.6%**	10.7%

	For the six months ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Net Profit	**211,664**	58,616
Add:		
Share-based compensation expenses	**35,543**	116,812
Non-IFRS Adjusted Net Profit	**247,207**	175,428
Non-IFRS Adjusted Net Profit Margin (2)	**18.1%**	8.8%

Notes:

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

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

Loans to Customers at Fair Value through Profit or Loss

Our loans to customers at fair value through profit or loss decreased by 57.4% to RMB4,028.2 million as at December 31, 2020, compared to RMB9,457.7 million as at December 31, 2019, primarily due to the decrease in loan origination loan volume from our trust lending structure, reflecting our strategy to expand our loan facilitation structure. Our loans to customers at fair value through profit or loss primarily represent the total balance of loans originated by us through our trust lending and direct lending structures.

	As at December 31,			
	2020		2019	
	RMB'000	**%**	*RMB'000*	%
Credit card balance transfer products	**1,115,815**	**27.7%**	2,003,501	21.2%
Consumption credit products	**2,778,288**	**69.0%**	6,097,252	64.5%
Online-to-offline credit products	**134,062**	**3.3%**	1,356,920	14.3%
Total	**4,028,165**	**100.0%**	9,457,673	100.0%

Contract Assets

Our contract assets decreased by 34.6% to RMB341.9 million as at December 31, 2020, compared to RMB523.0 million as at December 31, 2019, attributable to a decrease in facilitation fee rates.

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Contract assets	**389,568**	655,815
Less: expected credit losses ("**ECL**") allowance	**(47,711)**	(132,793)
	341,857	523,022

Guarantee Receivables and Guarantee Liabilities

Our guarantee receivables increased by 14.1% to RMB708.7 million as at December 31, 2020, compared to RMB621.2 million as at December 31, 2019. Our guarantee liabilities increased by 11.6% to RMB807.4 million as at December 31, 2020, compared to RMB723.6 million as at December 31, 2019. The changes in guarantee receivables and guarantee liabilities are primarily due to an increase in our credit-enhanced loan origination volume during the Year.

	For the year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Guarantee Receivables		
Opening balance	**621,248**	206,146
Addition arising from new business	**1,699,543**	1,426,080
ECL	**(169,081)**	(165,586)
Reversal due to early repayment	**(165,549)**	(80,384)
Payment received from borrowers	**(1,277,458)**	(765,008)
Ending Balance	**708,703**	621,248

	For the year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Guarantee Liabilities		
Opening balance	**723,617**	204,496
Addition arising from new business	**1,699,543**	1,426,080
Release of the margin	**(108,553)**	(99,793)
ECL	**207,921**	418,174
Reversal due to early repayment	**(165,549)**	(80,384)
Payouts during the year, net	**(1,549,558)**	(1,144,956)
Ending Balance	**807,421**	723,617

Borrowings and Senior Notes

Our total borrowings and senior notes, as recorded in our consolidated statement of financial position, comprise (i) payable to trust plan holders, (ii) borrowings from corporations and (iii) senior notes. Our total borrowings and senior notes decreased by 52.4% to RMB4,724.1 million as at December 31, 2020, compared to RMB9,915.2 million as at December 31, 2019, primarily due to decrease of loans originated by us through our trust lending structure.

The senior notes are comprised of the US$85,000,000 11.0% senior notes due 2022 issued on December 3, 2020 (the "**New Notes**") and the remaining principal amount of US$17,750,000 of the US$100,000,000 11.0% senior notes due 2021 issued on June 21, 2019 (the "**Old Notes**" and together with the New Notes, the "**Senior Notes**").

The New Notes have extended the maturity profile of our senior notes and strengthened our capital base and were issued on December 3, 2020 as follows:

(a) we issued and delivered a principal amount of US$76,943,000 of New Notes in exchange for the surrender and cancellation of a principal amount of US$72,250,000 of the Old Notes pursuant to an exchange offer made by the Company to holders of the Old Notes during the Year (the "**Exchange Offer**"); and

(b) we issued and delivered US$8,057,000 of additional New Notes pursuant to an offering made concurrently with the Exchange Offer (the "**Concurrent New Money Issuance**").

In addition, we repurchased an aggregate principal amount of US$10,000,000 of the Old Notes (the "**Repurchased Notes**") on December 21, 2020, which were subsequently cancelled.

	As at December 31,			
	2020		2019	
	RMB'000	**%**	*RMB'000*	%
Payable to trust plan holders	**3,755,797**	**79.5%**	8,637,946	87.1%
Borrowings from corporations	**339,502**	**7.2%**	598,383	6.1%
	4,095,299	**86.7%**	9,236,329	93.2%
Senior Notes	**628,834**	**13.3%**	678,829	6.8%
Total	**4,724,133**	**100.0%**	9,915,158	100.0%

Weighted Average Interest Rates of Borrowings and Senior Notes	**As at December 31, 2020**	2019
Payable to trust plan holders	**10.3%**	11.0%
Borrowings from corporations	**12.1%**	10.5%
Borrowings from individuals	**—**	10.0%
Secured borrowings	**—**	6.2%
Senior Notes	**11.0%**	11.0%

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from cash generated from operating activities and capital contribution from Shareholders.

Cash Flows

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

	For the year ended December 31,		For the six months ended December 31,	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Net cash inflow/(outflow) from operating activities	**5,269,241**	367,619	**1,451,165**	(1,424,353)
Net cash (outflow)/inflow from investing activities	**(27,359)**	(26,517)	**(24,188)**	63,238
Net cash (outflow)/inflow from financing activities	**(5,913,393)**	778,367	**(1,743,139)**	1,640,860
Net (decrease)/increase in cash and cash equivalents	**(671,511)**	1,119,469	**(316,162)**	279,745
Cash and cash equivalents at the beginning of the years and periods	**2,169,524**	1,050,112	**1,814,054**	1,889,822
Effects of exchange rate changes on cash and cash equivalents	**3,822**	(57)	**3,943**	(43)
Cash and cash equivalents at the end of the year and periods	**1,501,835**	2,169,524	**1,501,835**	2,169,524

Our cash inflow generated from operating activities primarily consists of principal and interest, loan facilitation service fees and other service fees received from the consumer finance products we offered. Our cash outflow used in operating activities primarily consists of cash payment of guarantee indemnification, employee salaries and benefits, taxes and surcharges, and other operating expenses. We had net cash inflow generated from operating activities of RMB5,269.2 million for the Year, as compared to net cash inflow generated from operating activities of RMB367.6 million for the year ended December 31, 2019. Net cash inflow from operating activities increased primarily due to a decrease of RMB4,893.4 million in loan volume originated by trust lending structure for the Year.

We had net cash outflow from investing activities of RMB27.4 million for the Year, as compared to net cash outflow of RMB26.5 million for the year ended December 31, 2019. Our net cash outflow mainly comprised payments for property, plant and equipment and intangible assets of RMB34.2 million for the Year.

We had net cash outflow from financing activities of RMB5,913.4 million for the Year, as compared to net cash inflow of RMB778.4 million for the year ended December 31, 2019. For the Year, we had net cash outflow from borrowings and trust plans of RMB5,078.4 million and payment of interest expenses of RMB759.4 million. Additionally, we had a net cash outflow from senior notes of RMB19.7 million for the Year, as compared to a net cash inflow of RMB660.6 million for the year ended December 31, 2019.

Capital Commitments

The Group did not have any significant capital commitments contracted for at the end of the Year but not recognized as liabilities as at December 31, 2020.

Charges on Assets

The Group did not have any charges on assets as at December 31, 2020.

Contingencies

Save as disclosed in this annual report, the Group did not have any significant contingent liabilities as at December 31, 2020.

ACQUISITIONS AND DISPOSALS

Material Investments and Acquisitions

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

Future Plans for Material Investments and Capital Assets

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

Board of Directors and Senior Management

DIRECTORS

Mr. Liu Sai Wang Stephen	*Executive Director and Chief Executive Officer*
Mr. Liu Sai Keung Thomas	*Executive Director and Chief Operating Officer*
Mr. Ma Ting Hung	*Non-Executive Director and Chairman*
Mr. Yip Ka Kay	*Non-Executive Director*
Mr. Chen Penghui	*Independent Non-Executive Director*
Mr. Fang Yuan	*Independent Non-Executive Director*
Mr. Wu Chak Man	*Independent Non-Executive Director*

Directors — Biographies

Mr. Liu Sai Wang Stephen ("**Mr. Stephen Liu**"), aged 53, joined as a director of the Company in September 2007. He is an executive director and the Chief Executive Officer of the Company and a member of the remuneration committee of the Company. He is also a director of several subsidiaries of the Company. Mr. Stephen Liu is responsible for the overall strategic planning and business oversight of the Group, as well as management of the Company. Prior to joining the Company, Mr. Stephen 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. Stephen 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. Stephen Liu is the brother of Mr. Liu Sai Keung Thomas, an executive director and the Chief Operating Officer of the Company.

Mr. Stephen 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 Securities and Futures Ordinance (the "**SFO**")) of the Company.

Mr. Liu Sai Keung Thomas ("**Mr. Thomas Liu**"), aged 48, joined as a director of the Company in November 2017. He 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 the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), 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 Stock Exchange.

Mr. Thomas Liu received 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 the University of California, Los Angeles, in June 2001.

Mr. Thomas Liu is the brother of Mr. Stephen Liu, an executive director and the Chief Executive Officer of the Company.

Mr. Ma Ting Hung, 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. Mr. Ma has over 28 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 Stock Exchange, 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 and as its Vice Chairman from August 2000 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 Stock Exchange, 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 the 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 of the Company within the meaning of Part XV of the SFO.

Mr. Yip Ka Kay, 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 of Shun Tak Holdings Limited (SEHK Stock Code: 242), a company listed on the Main Board of the Stock Exchange. 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, the United States of America. 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.

Mr. Chen Penghui, aged 49, 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. ("**ShangPharma**") (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, aged 43, joined as an independent non-executive director of the Company in August 2020. He 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. Prior to 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's degree in Accounting from Shanghai Jiao Tong University, a MBA from INSEAD Business School and an EMBA from the 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, aged 49, 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 Stock Exchange, in June 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 Stock Exchange, 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 — Biographies

Mr. Gong Yisheng, 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. Jin Jiafang, 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.

Ms. Xue Lan, 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 for 2017 to 2018.

Mr. Yu Rui, 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, the United Kingdom, and an EMBA from the China Europe International Business School.

Mr. Zhou Zheng, 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.

Corporate Governance Report

The board of directors of the Company (the "**Board**") is committed to applying good corporate governance practices and procedures in its management of the Company and the conduct of its business and operations.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that the Company has, during the Year, applied the principles and complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 (the "**CG Code**") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct to regulate dealings in the securities of the Company by its directors and senior management of the Company. Each director has confirmed, following specific enquiry by the Company, that he has complied with the required standards set out in the Model Code throughout the Year or throughout the period from the date of appointment during and until the end of the Year, as the case may be.

BOARD OF DIRECTORS

Members of the Board

As at the date of this report, the Board comprised the following directors:

Executive Directors

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

Non-Executive Directors

Mr. Ma Ting Hung *(Chairman)*
Mr. Yip Ka Kay

Independent Non-Executive Directors

Mr. Chen Penghui
Mr. Fang Yuan
Mr. Wu Chak Man

Mr. Liu Sai Wang Stephen and Mr. Liu Sai Keung Thomas are siblings. Save as aforesaid, there are no other material or relevant financial, business, family or other relationships between the directors.

Responsibilities of the Board

The Board is responsible for the overall management of the Group and its business and affairs, which includes providing leadership and control to and over the Group's management, determining business strategy, monitoring financial and operating performance and reviewing the effectiveness of internal control and risk management systems.

The Board possesses the required knowledge, skills, experience appropriate for the requirements of the Group's business and the ability to exercise independent judgement in the interests of the Company and its Shareholders.

The Board is provided with monthly management reports on the Group's business and financial performance.

Board Meetings

The Board holds meetings regularly and holds at least four meetings a year at about quarterly intervals to review the operations and financial and business performance of the Group, including the interim and annual financial results of the Group. Regular Board meetings are scheduled in advance to give directors an opportunity to attend. Additional meetings of the Board are held to deal with Board matters as necessary. At least 14 days' notice of regular Board meetings is given to directors and such notice as is reasonable in the circumstances in all other cases. Directors are invited to include matters in the agenda for regular Board meetings. Directors can attend Board meetings either in person or by electronic means of communication.

A total of four Board meetings were held during the Year. There was satisfactory attendance for Board meetings, which evidences prompt attention of the directors to the affairs of the Company.

If a substantial shareholder (as defined under the Listing Rules) or a director has a material conflict of interest in respect of a matter to be considered by the Board, the matter will be dealt with by a physical Board meeting (and not by a written resolution). Independent non-executive directors who, and whose associates, have no material interest in the transaction will be present at such board meeting.

Efforts are made to ensure that directors' questions or requests are dealt with promptly. All directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The directors also have separate and independent access to senior management to make further enquiries or to obtain more information where necessary.

Delegation by the Board

Authority and responsibility for the day-to-day management, administration and operation of the Group is delegated by the Board to a senior management team, led by the chief executive officer.

Under the leadership of the chief executive officer, senior management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Group's businesses.

The Board determines which functions are reserved to the Board and which are delegated to senior management. The Board delegates appropriate aspects of its management and administrative functions to senior management and gives clear directions as to the powers of senior management, in particular, with respect to the circumstances where senior management must report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. These arrangements are reviewed periodically to ensure that they remain appropriate to the needs of the Company.

Important matters are reserved to the Board for its decision, including long term objectives and strategies, extension of the Group's activities into new business areas, appointments to the Board and the Board committees, annual budgets, material acquisitions and disposals, material connected transactions, material banking facilities, approval of interim and final results and payment of dividends.

Appointment and Re-election of Directors

The amended and restated articles of association of the Company (the "**Articles**") require that at each annual general meeting one-third of the Board shall retire from office by rotation, and that each director (including those appointed for a specific term) are subject to retirement by rotation at least once every three years.

Non-executive directors (including independent non-executive directors) are now appointed for an initial term of one year, and thereafter from year to year, subject to retirement in accordance with the Articles.

The Articles also require that a director appointed to fill a casual vacancy shall hold office only until the first general meeting after his/her appointment and is subject to re-election at such meeting and that a director appointed as an addition to the Board shall hold office only until the next following annual general meeting of the Company and is subject to re-election at such meeting.

Non-Executive Directors

The non-executive directors (including the independent non-executive directors) are experienced individuals from diversified backgrounds and industries including the financial sector, and one independent non-executive director has appropriate accounting and related financial management expertise as required by the Listing Rules. With their expertise and experience, the non-executive directors (including the independent non-executive directors) provide independent judgement and advice on the overall management of the Company.

The total number of non-executive directors (including the independent non-executive directors) currently represents more than half of the Board members which lends a very strong independent element to the Board and its judgement and decision-making. The non-executive directors (including the independent non-executive directors) take the lead where potential conflicts of interests arise.

Independent non-executive directors are invited to fully participate in Board meetings.

During the Year, the chairman has held a meeting with the independent non-executive directors without the presence of other directors.

Independent Non-Executive Directors

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

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

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

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Board is of the view that all of the independent non-executive directors meet the guidelines for assessing independence as set out in rule 3.13 of the Listing Rules and considers them to be independent.

Directors' Training and Professional Development

The directors have received training and induction on their duties and responsibilities as directors and the requirements of and their obligations under, amongst others, the Listing Rules and the SFO. On appointment, each new director is provided with orientation materials regarding his or her duties and responsibilities under the Articles, the Listing Rules, the SFO and the Company's corporate governance policies, as well as an understanding of the Group's corporate goals, activities and business, strategic plans and financial performance and position.

The company secretary is responsible for keeping directors updated on the Listing Rules and other regulatory and reporting requirements changes and developments.

To develop and refresh their knowledge and skills, the directors are expected to participate in appropriate continuous professional development training that covers updates on laws, rules and regulations and also directors' duties and responsibilities. During the Year, Mr. Ma Ting Hung, Mr. Liu Sai Wang Stephen, Mr. Liu Sai Keung Thomas, Mr. Yip Ka Kay, Mr. Chen Penghui, Mr. Fang Yan and Mr. Wu Chak Man received and read materials on recent amendments to the Listing Rules, etc. The directors have confirmed they have received appropriate continuous professional development training during the Year.

Indemnification of Directors and Officer

The directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in the discharge of their duties while holding office as directors and officers of the Company. The directors and officers are not indemnified if negligence, fraud, breach of duty or breach of trust is proven against them.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles, responsibilities, authorities and powers of the chairman and the chief executive officer are separate and distinct and are not performed by the same individual.

The chairman focuses on the Group's strategic business planning while the chief executive officer has overall executive responsibility for the Group's day-to-day development and management. They receive significant support from the directors and senior management.

The chairman is responsible for, amongst other things, ensuring the whole Board receives, in a timely manner, adequate information regarding the Group and its financial and business performance which is accurate, clear, complete and reliable. The Board, led by the chairman, sets the overall direction, strategy and policies of the Company.

The chairman provides leadership for the Board to ensure that it works effectively, performs its responsibilities and acts in the best interests of the Company. He is also responsible for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. The chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings. He also encourages the directors, especially non-executive directors (including the independent non-executive directors), to make full and active contributions to the Board's affairs, to voice their concerns or different views and ensure that the Board's decisions fairly reflect the consensus.

BOARD COMMITTEES

The Board has established an audit committee, nomination committee and remuneration committee, each with specific terms of reference that deal clearly with their respective authorities and responsibilities. The terms of reference of each of these committees is available on the websites of the Company and the Stock Exchange.

There was satisfactory attendance for meetings of the board committees during the Year. The minutes of committee meetings are circulated to all members of the relevant committee unless a conflict of interest arises. The committees are required to report back to the Board on key findings, recommendations and decisions.

Audit Committee

The role and responsibilities of the audit committee include:

(A) the review and supervision of the financial reporting process, financial controls, internal control and risk management system and to make recommendations and provide advice to the Board on the appointment, re-appointment and removal and the terms of appointment of the external auditor; and

(B) reporting to the Board any suspected fraud and irregularities and suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

Members of the audit committee during the Year were:

Mr. Wu Chak Man *(Independent Non-Executive Director) (Chairman)*
Mr. Chen Penghui *(Independent Non-Executive Director)*
Mr. Yip Ka Kay *(Non-Executive Director)*

The Board believes that members of the audit committee possess appropriate professional qualifications and/or experience in financial matters. None of the audit committee members is or has been a partner of the existing external auditor.

During the Year, the audit committee met twice, together with senior management and the external auditor to review, amongst other things, the annual financial statements of the Company for the year ended December 31, 2019 and the interim financial statements of the Company for the six months ended June 30, 2020, the accounting principles and practices adopted by the Group, statutory compliance, other financial reporting matters, and the adequacy and effectiveness of the Group's internal audit, risk management and internal control system, as well as the adequacy of resources, staff qualifications and experience of the Company's accounting, internal audit and financial reporting functions.

Nomination Committee

The role and responsibilities of the nomination committee include reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board at least annually, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying appropriate candidates to serve as directors of the Company, overseeing the process for evaluating the performance of the Board, assessing the independence of the independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

To assist the nomination committee in considering the nomination of new directors, the Board has adopted:

(A) a diversity policy which sets out the approach to achieve diversity on the Board by requiring consideration of a range of diversity perspectives with regard to the selection of candidates as directors including, but not limited to, gender, age, cultural and educational background and professional experience; and

(B) a nomination policy which, amongst other things, sets out the factors which the nomination committee should consider in discharging its responsibilities.

Members of the nomination committee during the Year were:

Mr. Ma Ting Hung *(Non-Executive Director) (Chairman)*
Mr. Chen Penghui *(Independent Non-Executive Director) (appointed on June 1, 2020)*
Dr. Seek Ngee Huat *(Independent Non-Executive Director) (retired on June 1, 2020)*
Mr. Wu Chak Man *(Independent Non-Executive Director)*

The nomination committee met two times during the Year to review, among other things, the structure, size and composition of the Board, the independence of independent non-executive directors, the retirement and re-election of directors in accordance with the Articles and the Listing Rules, and the retirement and appointment of independent non-executive directors.

Remuneration Committee

The role and responsibilities of the remuneration committee are to make recommendations to the Board in determining the policy and structure for the remuneration of directors and senior management, to establish a formal and transparent procedure for developing policy, to evaluate the performance of directors and senior management, to review and approve the terms of incentive schemes and directors' service contracts, and to recommend the remuneration packages for all directors and senior management.

The remuneration committee consults the chairman of the Board and/or the chief executive officer about the remuneration proposals for executive directors, and may also seek independent professional advice if considered necessary.

Members of the remuneration committee during the Year were:

Mr. Chen Penghui *(Independent Non-Executive Director) (Chairman)*
Mr. Wu Chak Man *(Independent Non-Executive Director)*
Mr. Liu Sai Wang Stephen *(Executive Director)*

Two meetings of the remuneration committee were held during the Year to make recommendations to the Board to review the senior management's remuneration. The remuneration committee meets as and when required to perform its responsibilities, and at least once in each financial year of the Company.

ATTENDANCE AT MEETINGS OF THE BOARD AND BOARD COMMITTEES, AND THE ANNUAL GENERAL MEETING

	Number of meetings held during the Year Attended/Eligible to attend				
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting held on June 1, 2020
Executive Directors					
Mr. Liu Sai Wang Stephen	4/4			2/2	1/1
Mr. Liu Sai Keung Thomas	4/4				1/1
Non-Executive Directors					
Mr. Ma Ting Hung	4/4		2/2		1/1
Ms. Shen Jing *(resigned on December 8, 2020)*	2/3				1/1
Mr. Yip Ka Kay	4/4	2/2			1/1
Independent Non-Executive Directors					
Mr. Chen Penghui	4/4	2/2	1/1	1/2	1/1
Mr. Fang Yuan *(appointed on August 19, 2020)*	1/1				
Dr. Seek Ngee Huat *(retired on June 1, 2020)*	2/2		1/1		0/1
Mr. Wu Chak Man	4/4	1/2	2/2	2/2	1/1

CORPORATE GOVERNANCE FUNCTIONS

The Board has the following responsibilities:

(A) to develop and review the Company's policies and practices on corporate governance and to review compliance with the CG Code and disclosures in the corporate governance report;

(B) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(C) to review and monitor the training and continuous professional development of the directors and senior management; and

(D) to develop, review and monitor the code of conduct applicable to the directors and employees.

COMPANY SECRETARY

Mr. Cha Johnathan Jen Wah is the company secretary of the Company. Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Mr. Cha has completed no less than 15 hours of relevant professional training during the Year in compliance with rule 3.29 of the Listing Rules.

The Company has not appointed an external service provider to act as company secretary.

FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements of the Group. The directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions. The Board aims at presenting a balanced, clear and comprehensive assessment of the Group's performance, financial and business position and prospects. Senior management provides explanation and information to the directors to enable the Board to make informed assessments of the financial, business and other matters put before the Board for approval.

Based on a review conducted by the audit committee, the Board considers that the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function are adequate.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining a system of risk management and internal control appropriate for the Group's business and for reviewing its effectiveness.

As a consumer finance service provider in China, the Group is subject to a variety of risks to its business operations, including credit risk, liquidity risk, legal and compliance risk, market risk, data privacy risk and operation risk. Among these risks, credit risk of borrowers is the primary exposure of the Group. The overall objective of the Group's risk management system is to maintain and optimize robust and efficient risk management and internal control to ensure the security of the Group's operations and assets, to achieve a balance between business growth and risk control, and to protect the long-term interests of the Shareholders.

The Group applies a risk management and internal control system that monitors, assesses and manages the risks associated with the Group's business and operations.

Implementation of the risk management and internal control system is conducted by senior management through a risk management framework that includes, amongst others, a risk management committee comprising senior management members including the chief executive officer and chief risk officer, a risk management and control department which reports to the chief risk officer and other risk management functions such as the credit policy and underwriting department which formulates and updates credit policies and supervises the execution of risk management policies, the loan servicing department which is responsible for loan servicing and collection, the IT department which is responsible for providing technical support to the Group's proprietary risk management system, and the internal control and compliance department which is primarily responsible for formulating and implementing internal control rules and procedures, standardising business processes and promoting best business practices.

The Board has received from management a confirmation on the effectiveness of the risk management and internal control systems for the Year.

The Board, as supported by the audit committee as well as the internal audit department which has twice during the Year reviewed the risk management and internal control systems, including the financial, operational and compliance controls, consider that such systems are effective and adequate. The reviews also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Company also takes appropriate measures to identify inside information and preserve its confidentiality until proper dissemination via the electronic publication system operated by the Stock Exchange.

INTERNAL AUDIT

The internal audit department is supervised by the audit committee. It conducts independent internal audits of the effectiveness of the Group's risk management and internal control.

The internal audit department is authorized to perform comprehensive inspection, review, and assessment of all of the Group's 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.

AUDITOR'S REMUNERATION

PricewaterhouseCoopers ("**PwC**") is the Company's external auditor until the next annual general meeting, when PwC will stand for re-appointment. PwC is primarily responsible for providing audit services in connection with the financial statements of the Group for the Year.

During the Year, PwC charged the Group RMB4.9 million for the provision of audit services and RMB0.4 million for the provision of non-audit services. The non-audit services included tax consulting services.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

Shareholder(s) holding not less than one-tenth of the paid up capital of the Company having the right to vote at general meetings may, by written requisition to the Board or the company secretary, require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purpose of the meeting, be signed by the requisitionist(s) and deposited with the Board or the company secretary at the Company's principal place of business in Hong Kong at Suite 1918, 19/F, Two Pacific Place, 88 Queensway, Hong Kong.

The share registrar will verify the particulars of the requisitionist(s) in the request and provided the request is in order and valid, the company secretary will ask the Board to convene an extraordinary general meeting by serving notice to all registered Shareholders in accordance with relevant statutory and regulatory requirements. If the request is found to be not in order and valid, the requisitionist(s) will be advised of the outcome and an extraordinary general meeting will not be convened as requested. If within 21 days from the date of a proper and valid requisition the Board fails to proceed to convene an extraordinary general meeting, the requisitionist(s) may convene such a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to convene an extraordinary general meeting shall be reimbursed by the Company to the requisitionist(s).

Procedures for putting forward proposals at general meetings

There are no provisions allowing Shareholders to propose new resolutions at general meetings under the Cayman Islands Companies Law. Shareholders who wish to move a resolution may request the Company to convene an extraordinary general meeting in accordance with the procedures set out in the preceding section "Procedures for shareholders to convene an extraordinary general meeting". Shareholders can also send written enquiries and proposals to the Board to, but without obligation on the part of the Board, consider putting the matter before Shareholders at a general meeting. Such enquiries or proposals may be sent to the Board or the company secretary at the Company's principal place of business in Hong Kong at Suite 1918, 19/F, Two Pacific Place, 88 Queensway, Hong Kong.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time put enquiries to the Board. Enquiries should be in writing and sent by post to the principal place of business of the Company in Hong Kong or by email for the attention of the Investor Relations Department to "ir@vcredit.com".

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company maintains a number of communications channels between itself and Shareholders, investors and other stakeholders. These include annual and other general meetings, annual and interim results and reports, notices, announcements and circulars and the Company's website, www.vcredit.com.

DIVIDEND POLICY

The Board has adopted a dividend policy which sets out the general objective, procedure and principles relating to the determination and declaration of dividends and distributions by the Company. In summary, dividends and distributions by the Company are required to comply with applicable legislation and the Articles. The Board shall exercise care in its financial management of the Company and in declaring dividends and distributions. Final dividends declared by the Company are subject to the approval of Shareholders in general meeting. There is no assurance that any dividend or distribution will be proposed or declared in respect of any specific period.

Report of the Directors

The directors present their report and the audited financial statements of the Company for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries during the Year were the provision of consumer finance in China. There were no significant changes in the nature of the Group's principal activities during the Year.

Details of the principal activities of the Company's subsidiaries are set out in note 1 and note 2.2.1 to the financial statements.

RESULTS

The Group's loss for the Year and the Group's financial position as at December 31, 2020 are set out in the financial statements on pages 62 to 158.

DIVIDEND

The Board does not recommend the payment of a dividend for the Year (2019: Nil).

BUSINESS REVIEW

A fair review of the business of the Group for the Year, the significant events affecting the Group that have occurred since the end of 2020 and an indication of likely future development of the Group are provided in the sections headed "The Chairman's Statement", "Letter from the CEO" and "Management's Discussion and Analysis" of this annual report and the financial statements and the notes thereto on pages 62 to 158. A description of the principal risks and uncertainties facing the Group is provided in the sections headed "Letter from the CEO" and the "Corporate Governance Report" of this annual report, while an analysis using financial key performance indicators can be found in the section headed "Management's Discussion and Analysis" of this annual report. An account of the Company's relationship with its key stakeholders can also be found in the section headed "Letter from the CEO" and "Corporate Governance Report" of this annual report.

Compliance with Laws and Regulations

The Group operates in a regulatory environment which is evolving, particularly in the People's Republic of China (the "**PRC**"), and the Group is required to adapt its business operations and processes to conform with new requirements that impact its business and operations as they are promulgated. During the Year, to the best of the information, knowledge and belief of the Board, the Group has complied with the laws in the Cayman Islands, Hong Kong and the PRC applicable to the Group's business and operations and that any non-compliance, if any, should not have a material impact on the Group.

Corporate Social Responsibility Policies and Performance

The Group is committed to promoting and advancing the implementation of corporate social responsibility, environmental protection and community engagement.

The Group seeks to sustain mutually beneficial relationships with our stakeholders such as our employees, investors, customers and suppliers. Employees are our important asset, and therefore we deliver training and development activities to provide an equitable, safe and harmonious working environment for them.

In terms of environmental protection, the Group complies with applicable environmental laws and regulations, promotes green office policies, advocates environmental protection and energy conservation awareness through effective control measures, and encourages employees to travel with low carbon footprint.

As a socially responsible corporate citizen, the Group incorporates philanthropy into its corporate values. We contribute to various social initiatives and engage in community activities through charitable donations and collaborating with a range of charity groups and partners.

For a specific details of the Group's corporate social responsibilities, environmental and social policies and performances, please refer to the annual environmental, social and governance report of the Group, which will be uploaded to the websites of the Company and the Stock Exchange before the end of May 2021.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The related party transactions set out in note 35 to the financial statements are connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. These transactions are fully exempt connected transactions or fully exempt continuing connected transactions under Chapter 14A of the Listing Rules.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years, as extracted from the published audited financial statements, is set out on page 159. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the Year are set out in note 31 and note 34 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer shares of the Company (the "**Shares**") on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Repurchase of Shares

During the Year, the Company repurchased a total of 5,644,200 Shares on the Stock Exchange for an aggregate consideration of HK$24,019,746 (before expenses). The repurchases were effected pursuant to the repurchase mandates granted to the directors by the Shareholders on June 28, 2019 and June 1, 2020, with a view to benefiting the Shareholders as a whole to enhance the net asset value per Share.

Particulars of the Shares repurchased are as follows:

Month (2020)	Number of Shares Repurchased	Lowest Price Paid per Share *(HK$)*	Highest Price Paid per Share *(HK$)*	Aggregate Consideration (Before Expenses) *(HK$)*
May	232,200	3.78	4.29	933,780
June	477,200	3.96	4.32	1,938,052
July	423,400	4.47	4.90	2,028,226
August	1,144,000	4.33	4.59	5,097,048
September	2,700,600	4.03	4.41	11,298,900
October	649,000	3.93	4.29	2,661,168
December	17,800	3.49	3.60	62,572

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

Repurchase of Senior Notes

Exchange Offer and Concurrent New Money Issuance

On December 3, 2020, the Company completed the Exchange Offer and the Concurrent New Money Issuance and pursuant to which the Company issued an aggregate principal amount of US$85,000,000 of New Notes. The New Notes are listed on the Stock Exchange.

Under the Exchange Offer, the Company offered to holders of Old Notes to exchange Old Notes for New Notes. Pursuant to the Exchange Offer, the Company accepted a principal amount of US$72,250,000 of Old Notes in exchange for, amongst other things, a principal amount of US$76,943,000 of New Notes. The principal amount of the Old Notes validly tendered and accepted by the Company under the Exchange Offer has been cancelled.

Under the Concurrent New Money Issuance, the Company issued a principal amount of US$8,057,000 of New Notes.

Further details of the Exchange Offer and the Concurrent New Money Issuance are contained in the announcements of the Company dated November 18, 2020; November 26, 2020; November 27, 2020; December 3, 2020 and December 4, 2020.

Repurchase of Old Notes

On December 21, 2020, the Company completed the repurchase of the Repurchased Notes by way of private treaty from Advance Tech Limited ("**ATL**") at a total repurchase price of US$9,400,000. ATL is a subsidiary of ITC Properties Group Limited, a company listed on the Stock Exchange under stock code 199.

Following completion of the Exchange Offer and the cancellation of the Old Notes validly tendered and accepted thereunder and the repurchase and cancellation of the Repurchased Notes, a principal amount of US$17,750,000 of Old Notes remains outstanding as at December 31, 2020.

Further details of the repurchase of the Repurchased Notes are contained in the announcement of the Company dated December 21, 2020.

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

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDERS OF THE COMPANY

The following disclosure is made in compliance with the disclosure requirements under rule 13.21 of the Listing Rules.

Pursuant to the terms and conditions of the Senior Notes, the Company is required to make an offer to repurchase all outstanding Senior Notes at a purchase price equal to 101% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to (but not including) the repurchase date, if Mr. Ma Ting Hung, Mr. Liu Sai Wang Stephen, Madam Kwok Lim Ying and Mr. Liu Sai Keung Thomas and any entity controlled by them are the beneficial owners (as such term is used in Rule 13d-3 of the U.S. Securities Exchange Act of 1934) of less than 35% of the total voting power of the voting stock of the Company, accompanied by a rating decline.

TAX RELIEF AND EXEMPTION

To the best of their knowledge, information and belief, the directors are not aware of any tax relief or exemption available to Shareholders by reason of their holding Shares. Shareholders are advised to obtain their own tax advice to ascertain the availability of any such tax relief or exemption.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in note 33 to the financial statements.

There are no reserves available for distribution to Shareholders as at December 31, 2020 (2019: Nil).

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions of RMB3.6 million (2019: RMB0.4 million).

MAJOR CUSTOMERS AND SUPPLIERS

Due to the nature of our business, the Group did not have any major customers or suppliers during the Year. 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. The Group did not have any single customer who accounted for more than 5% of the Group's revenue during the Year.

None of the directors, their close associates or any Shareholders (which to the knowledge of the directors owns more than 5% of the Shares in issue) has any interest in the Group's five largest customers and five largest suppliers.

DIRECTORS

The directors during the Year and up to the date of this report were as follows:

Executive Directors:

Mr. Liu Sai Wang Stephen
Mr. Liu Sai Keung Thomas

Non-Executive Directors:

Mr. Ma Ting Hung
Ms. Shen Jing *(resigned on December 8, 2020)*
Mr. Yip Ka Kay

Independent Non-Executive Directors:

Mr. Chen Penghui
Mr. Fang Yuan *(appointed on August 19, 2020)*
Dr. Seek Ngee Huat *(retired on June 1, 2020)*
Mr. Wu Chak Man

The non-executive directors, including independent non-executive directors, are now appointed for an initial term of one year and thereafter from year to year and all of the directors, including executive directors, are subject to retirement by rotation and re-election in accordance with the Articles.

In accordance with Article 109 of the Articles, Mr. Ma Ting Hung, Mr. Chen Penghui and Mr. Wu Chak Man will retire by rotation. Mr. Ma Ting Hung and Mr. Chen Penghui being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company to be held on June 18, 2021 (the "**AGM**"). Mr. Wu Chak Man has advised the Board that he will not offer himself for re-election at the AGM.

In accordance with Article 113 of the Articles, Mr. Fang Yuan, who was appointed an independent non-executive director on August 19, 2020 to fill a casual vacancy, will retire and, being eligible, offer himself for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND EMPLOYEES' REMUNERATION AND POLICY

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

As at December 31, 2020, the Group had a total of 606 employees.

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

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

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

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

Details of the directors' remuneration, the five highest paid individuals and the senior management's emoluments are set out in note 11, note 12 and note 35(d), respectively, to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

During the Year, none of the directors or their connected entities had an interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' COMPETING INTERESTS

So far as is known to the directors, as at December 31, 2020, none of the directors or their respective associates had any interest in a business, apart from the businesses of the Group, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

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

As at December 31, 2020, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required pursuant to the Model Code to be notified to the Company and the Stock Exchange are as follows:

Long positions in Shares and underlying Shares

Name of Directors	Nature of interest	Number of Shares	Number of underlying Shares pursuant to share options	Number of underlying Shares pursuant to share awards	Percentage of total issued Shares(1)
Ma Ting Hung	Personal interest	8,450,000			38.37%
	Interest in controlled corporations(2)	176,922,097	4,000,000		
Liu Sai Wang Stephen	Personal interest	300,000		900,000	21.91%
	Interest in controlled corporations(3)	59,942,173	46,978,816		
Liu Sai Keung Thomas	Personal interest	150,000	2,100,000	450,000	2.94%
	Interest in controlled corporations(4)	6,828,585	5,000,000		
Yip Ka Kay	Interest in controlled corporations(5)	13,574,502			2.75%
Fang Yuan	Personal interest	103,200			0.02%
Wu Chak Man	Personal interest	2,730,289			0.55%

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 493,559,589 Shares in issue as at December 31, 2020.

(2) Ma Ting Hung controls 100% of, and is a director of, each of Skyworld-Best Limited, Wealthy Surplus Limited and Glory Global International Limited, each of which has a beneficial interest in 84,719,154 Shares, 46,607,010 Shares and 45,595,933 Shares, respectively. Skyworld-Best Limited also has a beneficial interest in share options to subscribe for 4,000,000 Shares.

(3) Liu Sai Wang Stephen controls 50% of, and is a director of, Magic Mount Limited, which has a beneficial interest in 27,093,858 Shares, and controls 100% of, and is a director of, each of Perfect Castle Development Limited and Union Fair International Limited, each of which has a beneficial interest in 27,523,810 Shares and 5,324,505 Shares, respectively. Perfect Castle Development Limited also has a beneficial interest in share options to subscribe for 46,978,816 Shares.

(4) Liu Sai Keung Thomas controls 100% of, and is a director of, International Treasure Limited which has a beneficial interest in 6,828,585 Shares and share options to subscribe for 5,000,000 Shares.

(5) Yip Ka Kay controls 50% of, and is a director of, CPED (KY) Limited, which has a beneficial interest in 4,015,628 Shares. Yip Ka Kay is also the sole director and the sole shareholder of NM Strategic Partners, LLC which manages NM Strategic Focus Fund L.P., which has a beneficial interest in 9,558,874 Shares.

Save as disclosed herein and in the section headed "Board of Directors and Senior Management", and so far as is known to the directors, as at December 31, 2020:

(a) none of the directors or the chief executive of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required pursuant to the Model Code to be notified to the Company and the Stock Exchange; and

(b) none of the directors was a director or employee of a company which had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above and in the section headed "Share Incentive Schemes" below, at no time during the Year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate of the Group.

PERMITTED INDEMNITY PROVISION

Article 192 of the Articles provides, amongst other things, that every director of the Company for the time being acting in relation to the affairs of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

The Company has arranged Directors & Officers Liability Insurance for the directors and officers of the Company and its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

SHARE INCENTIVE SCHEMES

Save as disclosed herein, the Company has not entered into any equity-linked agreement and no equity-linked agreement subsisted as at the date of this report.

Pre-IPO Share Option Schemes

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

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

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

(a) the name of the director, in the case of outstanding share options granted to a director or a company or companies controlled by such director and the category of persons, in the case of outstanding share options granted to persons who are not directors or companies controlled by directors;

(b) in the case of a director, the number of share options granted to such director or companies controlled by such director on an individual basis and in the case of other persons, the number of share options granted on an aggregate basis;

(c) the number of share options exercised during the Year;

(d) the date of grant of the share options;

(e) the exercise period (after taking into account any vesting period) of the share options;

(f) the exercise price of the share options; and

(g) the approximate percentage that the Shares issuable under the share options represent of the total Shares in issue as at December 31, 2020.

Name or category of participant	Options outstanding as at December 31, 2020	Exercised during the Year	Lapsed during the Year	Date of grant	Exercise period	Exercise price per Share (US$)	Approximate percentage of issued Shares[(1)]
2016 ESOP							
Director							
Liu Sai Keung Thomas[(2)]	2,366,430	Nil	Nil	01-03-2016	31-12-2016 to 30-11-2021	0.8735	1.44%
	2,366,430	Nil	Nil	01-03-2016	31-12-2017 to 30-11-2021	0.8735	
	2,367,140	Nil	Nil	01-03-2016	31-12-2018 to 30-11-2021	0.8735	
Other employees							
In aggregate	171,850	Nil	Nil	20-11-2017	20-11-2018 to 19-11-2022	0.8735	0.10%
	171,850	Nil	Nil	20-11-2017	20-11-2019 to 19-11-2022	0.8735	
	171,902	Nil	Nil	20-11-2017	20-11-2020 to 19-11-2022	0.8735	

Name or category of participant	Options outstanding as at December 31, 2020	Exercised during the Year	Lapsed during the Year	Date of grant	Exercise period	Exercise price per Share (US$)	Approximate percentage of issued Shares[1]
Other employees							
In aggregate	0	Nil	116,655	20-09-2016	20-09-2017 to 19-09-2021	0.8735	0.00%
	0	Nil	116,655	20-09-2016	20-09-2018 to 19-09-2021	0.8735	
	0	Nil	116,690	20-09-2016	20-09-2019 to 19-09-2021	0.8735	
Other employees							
In aggregate	2,315,700	Nil	475,833	01-03-2016	31-12-2016 to 30-11-2021	0.8735	1.41%
	2,315,700	Nil	475,833	01-03-2016	31-12-2017 to 30-11-2021	0.8735	
	2,315,700	Nil	475,834	01-03-2016	31-12-2018 to 30-11-2021	0.8735	
Other employees							
In aggregate	0	Nil	156,650	17-10-2016	17-10-2017 to 16-10-2021	0.8735	0.00%
	0	Nil	166,650	17-10-2016	17-10-2018 to 16-10-2021	0.8735	
	0	Nil	166,700	17-10-2016	17-10-2019 to 16-10-2021	0.8735	
Other employees							
In aggregate	0	Nil	11,465	01-04-2016	01-04-2017 to 31-03-2021	0.8735	0.00%
	0	Nil	11,465	01-04-2016	01-04-2018 to 31-03-2021	0.8735	
	0	Nil	11,470	01-04-2016	01-04-2019 to 31-03-2021	0.8735	
2017 ESOP I							
Director							
Liu Sai Wang Stephen[3]	8,954,665	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	5.44%
	8,954,665	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	8,954,667	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
Other employees							
In aggregate	4,703,667	Nil	1,847,333	10-05-2018	09-05-2019 to 09-05-2023	1.6123	2.86%
	4,703,667	Nil	1,847,333	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	4,703,666	Nil	1,847,334	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
2017 ESOP II							
Director							
Liu Sai Wang Stephen[3]	6,704,939	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	4.08%
	6,704,939	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	6,704,941	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
Ma Ting Hung[4]	1,333,333	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	0.81%
	1,333,333	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	1,333,334	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
Other employees							
In aggregate	666,666	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	0.41%
	666,666	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	666,668	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	

Notes:

(1) The percentage calculations are based on the total number of 493,559,589 Shares in issue as at December 31, 2020.

(2) Liu Sai Keung Thomas has a personal interest in 2,100,000 share options and a corporate interest in 5,000,000 share options, granted under the 2016 ESOP. The corporate interest is held through International Treasure Limited, a company that is 100% controlled by Liu Sai Keung Thomas.

(3) Liu Sai Wang Stephen has a corporate interest in an aggregate of 46,978,816 share options granted under the 2017 ESOP I and the 2017 ESOP II. The corporate interest is held through Perfect Castle Development Limited, a company that is 100% controlled by Liu Sai Wang Stephen.

(4) Ma Ting Hung has a corporate interest in 4,000,000 share options granted under the 2017 ESOP II. The corporate interest is held through Skyworld-Best Limited, a company that is 100% controlled by Ma Ting Hung.

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

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

Post-IPO Share Option Scheme

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

Pursuant to the Post-IPO Share Option Scheme, the Company may grant share options to eligible persons to subscribe for Shares subject to the terms and conditions stipulated therein. A summary of some of the principal terms of the Post-IPO Share Option Scheme is as follows.

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

(b) *Eligible persons:* The eligible persons include employees and directors of the Company and any of its subsidiaries (including their respective executive and non-executive directors), business associates and advisers who will provide or have provided services to the Group.

(c) *Total number of Shares available for issue:* The total number of Shares which may be issued upon the exercise of all outstanding share options granted under the Post-IPO Share Option Scheme and any other schemes of the Company is 49,730,386 Shares, being not more than 10% of the Shares in issue on the Listing Date.

(d) *Consideration:* a sum of HK$1.00 is payable by accepting eligible persons within 20 business days from the date on which the letter of grant is delivered.

(e) *Maximum entitlement of each eligible person:* Unless otherwise approved by Shareholders, the total number of Shares issued and to be issued upon the exercise of the share options granted to an eligible person (including any exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant shall not exceed 1% of the total number of Shares in issue at the date of grant.

(f) *Exercise period:* The period during which a share option may be exercised is determined by the Board at its absolute discretion, except no share option may be exercised after 10 years from the date of grant.

(g) *Performance Target:* The Board may at is sole discretion specify, as part of the terms and conditions of any share option, such performance conditions that must be satisfied before the share option can be exercised.

(h) *Subscription price:* The subscription price payable in respect of each Share shall be not less than the higher of (i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of grant (which must be a business day); (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

(i) *Remaining life:* The Post-IPO Share Option Scheme remains in force until June 20, 2028 unless otherwise terminated in accordance with the terms stipulated therein.

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

No share options have been granted or agreed to be granted under the Post-IPO Share Option Scheme as at December 31, 2020.

Share Award Scheme

The Company adopted the Share Award Scheme on January 11, 2019, pursuant to which the Company may grant share awards ("**Awards**") in respect of up to 24,974,369 Shares ("**Award Shares**"). The Share Award Scheme is a discretionary scheme of the Company and does not constitute a share option scheme under and is not subject to the provisions of Chapter 17 of the Listing Rules. The purpose of the Share Award Scheme is to align the interests of eligible persons with those of the Group and to help encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. Further details of the Share Award Scheme are set out in the announcement of the Company dated January 11, 2019.

During the Year, a total of 850,000 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme. As of December 31, 2020, a total of 7,380,360 Award 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.

As at December 31, 2020, the trustees of the trusts established to administer the Share Award Scheme held a total of 4,761,170 Shares which can be applied to satisfy Awards granted under the Share Award Scheme to connected persons and non-connected persons.

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

Grantees	Date of Award	Number of Award Shares					
		Originally Granted	As at January 1, 2020	Granted during the Year	Vested during the Year	Forfeited during the Year	As at December 31, 2020
Liu Sai Wang Stephen	26–03–2019	1,200,000(1)	1,200,000	Nil	300,000	Nil	900,000
Liu Sai Keung Thomas	26–03–2019	600,000(1)	600,000	Nil	150,000	Nil	450,000
Non-connected Persons	26–03–2019	4,645,360(1)	4,645,360	Nil	1,106,690	734,000	2,804,670
Non-connected Person	26–03–2019	85,000(2)	85,000	Nil	Nil	Nil	85,000
Non-connected Person	08–07–2020	200,000(3)	Nil	200,000	50,000	Nil	150,000
Non-connected Person	08–07–2020	250,000(4)	Nil	250,000	62,500	Nil	187,500
Non-connected Person	08–07–2020	200,000(5)	Nil	200,000	50,000	Nil	150,000
Non-connected Person	08–07–2020	200,000(6)	Nil	200,000	50,000	Nil	150,000

Notes:

The Award Shares shall vest as follows:

No.	First Tranche	Second Tranche	Third Tranche	Fourth Tranche
(1)	one-quarter, on March 25, 2020	one-quarter, on March 25, 2021	one-quarter, on March 25, 2022	one-quarter, on March 25, 2023
(2)	56,695 Shares, on March 25, 2021	28,305 Shares, on March 25, 2022		
(3)	one-quarter, on September 2, 2020	one-quarter, on September 2, 2021	one-quarter, on September 2, 2022	one-quarter, on September 2, 2023
(4)	one-quarter, on November 4, 2020	one-quarter, on November 4, 2021	one-quarter, on November 4, 2022	one-quarter, on November 4, 2023
(5)	one-quarter, on November 18, 2020	one-quarter, on November 18, 2021	one-quarter, on November 18, 2022	one-quarter, on November 18, 2023
(6)	one-quarter, on November 20, 2020	one-quarter, on November 20, 2021	one-quarter, on November 20, 2022	one-quarter, on November 20, 2023

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

As at December 31, 2020, the interests and short positions of the substantial shareholders and other persons in Shares or underlying Shares, as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Name of Shareholder	Capacity/Nature of interest	Number of Shares Long Position	Number of Shares Short Position	Number of underlying Shares pursuant to share options/ share awards*	Percentage of total issued Shares(1)
Ma Ting Hung	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	17.98%
Wealthy Surplus Limited	Beneficial interest(2)	46,607,010			9.44%
Glory Global International Limited	Beneficial interest(2)	45,595,933			9.24%
Liu Sai Wang Stephen	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%
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 493,559,589 Shares in issue as at December 31, 2020.

(2) Ma Ting Hung controls 100% of each of Skyworld-Best Limited, Wealthy Surplus Limited and Glory Global International Limited.

(3) Liu Sai Wang Stephen controls 100% of 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. The short position disclosed by High Loyal Management Limited relates to 10,000,000 borrowed 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.

Save as disclosed herein and in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above, and so far as is known to the directors of the Company, as at December 31, 2020, no person had an interest or a short position in the Shares or underlying Shares required to be recorded in the register to be kept under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued Shares are held by the public as at the date of this report.

AUDIT COMMITTEE

The Company has an audit committee established in compliance with rule 3.21 of the Listing Rules with responsibility for reviewing and providing supervision over the Group's financial reporting process. The audit committee comprises two independent non-executive directors, Mr. Wu Chak Man and Mr. Chen Penghui, and a non-executive director, Mr. Yip Ka Kay.

The audit committee has reviewed the financial statements for the Year with senior management and the external auditor of the Company.

AUDITOR

PwC, the auditor of the Company, shall retire, and a resolution for its re-appointment as auditor of the Company will be proposed, at the AGM.

On behalf of the Board
Ma Ting Hung
Chairman

Hong Kong, March 24, 2021

Independent Auditor's Report

To the Shareholders of VCREDIT Holdings Limited
(registered by way of continuation 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 62 to 158, which comprise:

- the consolidated statement of comprehensive income for the year ended December 31, 2020;
- the consolidated statement of financial position as at December 31, 2020;
- 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, 2020, 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 (including International Independence Standards) issued by the International Ethics Standards Board for 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 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 18 As at December 31, 2020, the Group's fair value of loans to customers amounted to RMB4,028.17 million, and fair value loss of RMB2,229.52 million was recognized in the Group's consolidated statement of comprehensive income for the year ended December 31, 2020. 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 identified this as a key audit matter.	Our procedures included: 1. We understood, evaluated and tested 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 As at December 31, 2020, the Group's expected credit losses ("**ECL**") allowance of contract assets and guarantee receivables amounted to approximately RMB47.7 million and RMB114.1 million respectively, and the ECL allowance of guarantee liability amounted to approximately RMB807.4 million was recognized. 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 the outstanding contract assets, guarantee receivables and loan balances under the credit-enhancement model in stage 3. The ECL model under IFRS 9 is a highly complex process and involved significant management judgments and interpretations, and accordingly, we identified this as a key audit matter.	Our procedures included: 1. We understood, evaluated and tested 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 structured entities Please refer to the following notes to the consolidated financial statements: Notes 2.2.1(b) and 3.7 As at December 31, 2020, structured entities primarily included trust plans. The Group's consolidated structured entities amounted to RMB4.54 billion as disclosed in Note 2.2.1(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, actions taken to eliminate threats or safeguards applied.

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 Kwong Fung Frederick.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 24, 2021

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2020

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Continuing operations			
Interest type income	6	**2,017,326**	2,642,081
Less: interest expenses	6	**(715,915)**	(862,174)
Net interest type income	6	**1,301,411**	1,779,907
Loan facilitation service fees	7	**713,326**	1,247,377
Other income	8	**558,414**	837,073
Total Income		**2,573,151**	3,864,357
Origination and servicing expenses	9	**(811,158)**	(709,509)
Sales and marketing expenses	9	**(23,129)**	(32,229)
General and administrative expenses	9	**(280,342)**	(505,424)
Research and development expenses	9	**(78,943)**	(92,392)
Credit impairment losses	13	**(255,588)**	(309,101)
Fair value change of loans to customers		**(2,229,521)**	(2,058,482)
Other gains/(losses), net	14	**53,781**	(2,851)
Operating (loss)/profit		**(1,051,749)**	154,369
Share of net (loss)/profit of associates accounted for using the equity method	22	**(11,070)**	9,962
(Loss)/profit before income tax		**(1,062,819)**	164,331
Income tax credit/(expense)	15	**193,255**	(99,541)
(Loss)/profit for the year		**(869,564)**	64,790
(Loss)/profit for the year attributable to:			
Owners of the Company		**(869,581)**	64,790
Non-controlling interests		**17**	—

For the year ended December 31, 2020

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Exchange difference on translation of financial statements		**2,379**	(485)
Total comprehensive (loss)/income for the year, net of tax		**(867,185)**	64,305
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(867,202)**	64,305
Non-controlling interests		**17**	—
Basic (loss)/earnings per share (RMB yuan)	*16*	**(1.77)**	0.13
Diluted (loss)/earnings per share (RMB yuan)	*16*	**(1.77)**	0.13

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, 2020

	Note	As at December 31, 2020 RMB'000	2019 RMB'000
Assets			
Cash and cash equivalents	17(a)	**1,501,830**	2,169,522
Restricted cash	17(b)	**236,280**	264,584
Loans to customers at fair value through profit or loss	18	**4,028,165**	9,457,673
Contract assets	19	**341,857**	523,022
Guarantee receivables	20	**708,703**	621,248
Financial assets at fair value through profit or loss	21	**20,285**	280
Investments accounted for using the equity method	22	**20,626**	37,430
Deferred income tax assets	23	**682,573**	468,256
Right-of-use assets	24	**45,907**	25,824
Intangible assets	25	**35,378**	22,175
Property and equipment	26	**39,358**	51,196
Other assets	27	**676,232**	648,147
Total assets		**8,337,194**	14,289,357
Liabilities			
Borrowings	28	**4,095,299**	9,236,329
Senior notes	29	**628,834**	678,829
Lease liabilities	24	**47,976**	25,197
Guarantee liabilities	20	**807,421**	723,617
Tax payable		**34,560**	124,960
Deferred income tax liabilities	23	**100,696**	86,101
Other liabilities	30	**336,064**	314,046
Total liabilities		**6,050,850**	11,189,079
Equity			
Share capital	31	**40,412**	40,913
Share premium	31	**5,558,958**	5,581,016
Treasury shares	32	**(37,747)**	(51,774)
Reserves	33	**747,075**	682,913
Accumulated losses		**(4,025,371)**	(3,155,790)
Non-controlling interests		**3,017**	3,000
Total equity		**2,286,344**	3,100,278
Total liabilities and equity		**8,337,194**	14,289,357

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

The consolidated financial statements on pages 62 to 158 were approved by the Board of Directors on March 24, 2021 and were signed on its behalf by:

Ma Ting Hung
Director

Liu Sai Wang Stephen
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2020

	Attributable to owners of the Company							
				Reserves				
	Share capital *RMB'000* *Note 31*	Share premium *RMB'000* *Note 31*	Treasury shares *RMB'000* *Note 32*	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, 2020	40,913	5,581,016	(51,774)	607,888	75,025	(3,155,790)	3,000	3,100,278
Loss/(profit) for the year	–	–	–	–	–	(869,581)	17	(869,564)
Exchange difference on translation of financial statements	–	–	–	–	2,379	–	–	2,379
Total comprehensive income for the year	–	–	–	–	2,379	(869,581)	17	(867,185)
Transactions with owners in their capacity as owners								
Shares repurchased and cancelled	(501)	(20,971)	–	–	–	–	–	(21,472)
Vesting of share awards	–	(1,087)	14,027	(12,940)	–	–	–	–
Share-based payment	–	–	–	74,723	–	–	–	74,723
Total transactions with owners in their capacity as owners	(501)	(22,058)	14,027	61,783	–	–	–	53,251
Balance at December 31, 2020	40,412	5,558,958	(37,747)	669,671	77,404	(4,025,371)	3,017	2,286,344

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 Note 31	Share premium RMB'000 Note 31	Treasury shares RMB'000 Note 32	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	—	—	—	—	—	(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 repurchased 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.

Consolidated Statement of Cash Flows

For the year ended December 31, 2020

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Operating activities			
Cash generated from operating activities	36(a)	**5,435,741**	475,438
Income tax paid		**(166,500)**	(107,819)
Net cash inflow from operating activities		**5,269,241**	367,619
Investing activities			
Payments for property and equipment		**(17,258)**	(19,904)
Payments for intangible assets		**(16,928)**	(8,114)
Payments for financial assets at fair value through profit or loss	36(b)	**—**	(637,080)
Proceeds from disposal of financial assets at fair value through profit or loss	36(b)	**—**	638,581
Proceeds from disposal of investments accounted for using the equity method		**6,575**	—
Proceeds from sale of property, plant and equipment		**252**	—
Net cash outflow from investing activities		**(27,359)**	(26,517)
Financing activities			
Proceeds from issuance of senior notes	36(b)	**41,705**	660,602
Proceeds from issuance of ordinary shares to employees		**—**	1,672
(Repayment to)/proceeds from borrowings, net	36(b)	**(5,078,412)**	1,011,975
Including: (repayment to)/proceeds from trust plan holders, net	36(b)	**(4,819,647)**	1,634,864
Contribution from non-controlling shareholders		**—**	3,000
Interest expenses paid	36(b)	**(759,434)**	(807,258)
Payments for lease liabilities	36(b)	**(34,375)**	(36,768)
Payments for shares repurchased		**(21,472)**	(54,856)
Repayment of senior notes	36(b)	**(61,405)**	—
Net cash (outflow)/inflow from financing activities		**(5,913,393)**	778,367
Net (decrease)/increase in cash and cash equivalents		**(671,511)**	1,119,469
Cash and cash equivalents at the beginning of the financial year		**2,169,524**	1,050,112
Effects of exchange rate changes on cash and cash equivalents		**3,822**	(57)
Cash and cash equivalents at end of the year		**1,501,835**	2,169,524

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 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, 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, 2020, the number of ordinary shares in issue is 493,559,589, with a par value of HK$0.10 per share.

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

The consolidated financial statements have been approved and authorised for issue by the Board of Directors ("**Board**") of the Company on March 24, 2021.

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 of Hong Kong Limited 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, 2020:

		Notes
Amendments to IAS 1 and IAS 8	Definition of Material	*(i)*
Amendments to IFRS 3	Definition of a Business	*(ii)*
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	*(iii)*
Amendments to IFRSs	Revised Conceptual Framework for Financial Reporting	*(iv)*

Key requirements of those standards and amendments are set out below.

(i) Definition of Material — Amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, to clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and

- the meaning of primary users of general purpose financial statements to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group (continued)

(ii) Definition of a Business — amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

(iii) Interest Rate Benchmark Reform — amendments to IFRS 9, IAS 39 and IFRS 7

The amendments made to IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* provide certain reliefs in relation to interest rate benchmark reforms.

The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

(iv) Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) *New and amended standards adopted by the Group* (continued)

(iv) *Revised Conceptual Framework for Financial Reporting* (continued)

No changes will be made to any of the current accounting standards. However, entities that rely on the Conceptual Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Conceptual Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Conceptual Framework.

The 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*

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2020 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.

			Effective for annual periods beginning on or after
Amendments to IFRS 16	*(i)*	Covid-19-Related Rent Concessions	June 1, 2020
Amendments to IAS 1	*(ii)*	Amended by Classification of Liabilities as Current or Non-current	January 1, 2022
Amendments to IFRS 3	*(iii)*	Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 37	*(iv)*	Cost of Fulfilling a Contract	January 1, 2022
Amendments to IAS 16	*(v)*	Proceeds before Intended Use	January 1, 2022
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	*(vi)*	Annual Improvements 2018-2020 cycle	January 1, 2022
IFRS 17	*(vii)*	Insurance Contracts	January 1, 2023
Amendments to IFRS 10 and IAS 28	*(viii)*	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after January 1, 2016. The effective date has now been deferred.

Key requirements of those standards and amendments are set out below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted (continued)

(i) Amendments to IFRS 16: COVID-19-Related Rent Concessions

As a result of the Covid-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 *Leases* which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

(ii) Amendments to IAS 1: Amended by Classification of Liabilities as Current or Non-current

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023.

(iii) Amendments to IFRS 3: Reference to the Conceptual Framework

Minor amendments were made to IFRS 3 *Business Combinations* to update the references to the *Conceptual Framework for Financial Reporting* and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies*. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

(iv) Amendments to IAS 37: Cost of Fulfilling a Contract

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted (continued)

(v) Amendments to IAS 16: Proceeds before Intended Use

The amendment to IAS 16 *Property, Plant and Equipment* ("**PP&E**") prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

(vi) Annual improvements 2018–2020 cycle (IFRS 1, IFRS 9, IFRS 16 and IAS 41)

The following improvements were finalised in May 2020:

- IFRS 9 Financial Instruments — clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases — amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First-time Adoption of International Financial Reporting Standards — allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture — removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

(vii) IFRS 17: Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured in each reporting period. The standard allows a choice between recognizing changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted (continued)

(viii) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

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.

2.2 Subsidiaries

2.2.1 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 *Consolidation* (continued)

Structured entities through trust (continued)

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 18).

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.

(a) Particulars of the principal subsidiaries of the Group as at December 31, 2020 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, 2020	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, Hong Kong
VCREDIT Ventures Limited	The Cayman Islands/ Limited liability company	March 7, 2018	US$1	100%	Investment holding, Hong Kong
VCREDIT Investment Limited	The Cayman Islands/ Limited liability company	July 31, 2018	US$1	100%	Investment holding, Hong Kong
Indirectly owned:					
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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 *Consolidation* (continued)

Structured entities through trust (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, 2020	Principal activities and place of operation
Indirectly owned: (continued)					
Qingdao Vcredit Information Technology Management Co., Ltd.	PRC/Wholly foreign owned enterprise	March 6, 2014	RMB5,000,000	100%	Technology service, the PRC
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, Hong Kong
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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 *Consolidation* (continued)

Structured entities through trust (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, 2020, the trust plans consolidated by the Group amounted to RMB4,541.50 million (December 31, 2019: RMB9,853.92 million).

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

Consolidated structured entities as at December 31, 2019 and 2020 are set out below:

	Amount of investment by the Group As at December 31		Remaining paid-in capital of structured entities As at December 31	
Name	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trust Plan A	**4,685**	457,600	**4,685**	1,681,880
Trust Plan K	**—**	—	**—**	40,000
Trust Plan M	**26,446**	17,600	**3,621,713**	6,962,500
Trust Plan N	**747,908**	785,590	**747,908**	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	**6,670**	2,500	**66,670**	10,000
Trust Plan V	**—**	—	**11,718**	—
Trust Plan W	**11,000**	—	**36,081**	—
Trust Plan X	**—**	—	**42,120**	—
Trust Plan Y	**10,600**	—	**10,600**	—
	807,309	1,300,090	**4,541,495**	9,853,923

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 *Consolidation* (continued)

Structured entities through trust (continued)

The principal activities of these trust plans are as follows: the trusts 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.

2.2.2 *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 exceed the total comprehensive income of the subsidiary in the period the dividends are 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.

2.3 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)

2.4 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)

2.5 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.

2.6 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.7 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)

2.7 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, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

2.7.1 *Financial assets*

(i) Classification and subsequent measurement

The Group 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)

2.7 Financial assets and liabilities (continued)

2.7.1 *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. Interest income from these financial assets is included in finance income using the effective interest rate method. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

- 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.1 *Financial assets* (continued)

(i) *Classification and subsequent measurement* (continued)

Debt instruments (continued)

- 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 2.22(a)) 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.1 *Financial assets* (continued)

(i) *Classification and subsequent measurement* (continued)

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.

Changes in the fair value of financial assets at FVPL are recognised in other gains/ (losses) in the consolidated statement of comprehensive income as applicable.

(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 assets. 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)

2.7 Financial assets and liabilities (continued)

2.7.1 *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.

2.7.2 *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 2.10).

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2.8 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)

2.8 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 quoted market prices or dealer quotes for similar instruments, 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.

2.9 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.

2.10 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.

2.10.1 *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)

2.10 Financial guarantee contracts (continued)

2.10.2 Guarantee receivables

Guarantee premium is collected from borrowers on a 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 the ECL model.

2.10.3 Gains/(losses) from guarantee

In accordance with the principles of IFRS 15, gains from guarantee are recognised over the term of the loans. 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 gains/(losses) from guarantee on a net basis for each reporting period.

2.11 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Intangible assets (continued)

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 financial reporting date.

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

2.12 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Property and equipment (continued)

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%	20 years	5%
Leasehold Improvements	0%	1–3 years	33.33%–100%
Furniture and office equipment	0%–5%	3–5 years	19%–33.33%
Electronic equipment	0%	3–5 years	20%–33.33%
Motor vehicles	0%	3–5 years	20%–33.33%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.13).

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.

2.13 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. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of non-financial assets (continued)

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.

2.14 Current and deferred income tax

The income tax expense or credit for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. 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) Deferred income tax

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.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Borrowings

Borrowings are initially recognized 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.

2.16 Senior notes

Senior notes are notes issued by the Group to finance 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.

2.17 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$0.10 per share. Initial capital injection over par value per share are accounted for as 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.

Shares held by the VCREDIT No.1 Share Award Scheme Trust are disclosed as treasury shares and deducted from contributed equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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.

2.19 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)

2.19 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.

2.20 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Share-based payments (continued)

(a) *Equity-settled share-based payment transactions* (continued)

Share options (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 (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 are 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 employee benefits expense, with a corresponding increase in equity.

(b) *Share-based payment transactions among group entities*

The grant by the Company of share options, share awards and other 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.

2.21 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)

2.22 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.

(a) Interest type income

The Group has originated and held loans mainly through the consolidated trust plans, and also directly lends to borrowers. The Group uses nominal interest rates 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)

2.22 Revenue recognition (continued)

(a) Interest type income (continued)

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 determines 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 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 2.10) 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 evidence or third party evidence of selling price is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue recognition (continued)

(b) Non-interest income (continued)

Loan facilitation service fees and gains from guarantee (continued)

Upfront loan facilitation service fees are recognized at loan inception. When the cash received is not equal to the fee allocated to the upfront loan facilitation service, a “Contract Asset” or “Contract Liability” is recognized in the consolidated statements of financial position. Post loan facilitation fees are 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 services provide registered users on the platform with credit report analysis services, discount vouchers for marketplace business partners, and other exclusive rights. User membership prices are determined by the Group according to various service packages and membership terms. Each service in the user 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 provides referral services to third-party service providers. Upon the third-party service providers’ confirmation of the successful provision of services to referred customers and receipt of payment, the Group will charge the third-party service providers a fixed rate referral service fee based on the transaction amount and recognise the amount in other income. The third-party service provider will settle the payments periodically.

Other consulting service fees

The Group provides consulting services to certain business partners and charges consulting service fees based on employees’ actual working hours rendered and charge rates agreed in consulting service contracts. The Group recognizes other consulting service fees on accrual basis according to the number of employees’ consulting hours recorded in the system. Business partners will settle the payments periodically.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 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.

2.24 Leases

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. 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.

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.

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, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Leases (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.

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 is considered to have experienced a significant increase in credit risk if the borrower is past due on its contractual payments (2019: 30 days past due).
- 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;

- 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*discount rate.

- The calculation of PD and LGD starts with the 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 Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

- The discount rate 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 variables impacting credit risk and ECL of each portfolio. The most significant assumptions used are CPI and GDP, given their impact 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 Measurement of financial guarantee liability

The financial guarantee liability is an expected compensation which will be paid in the future due to guarantee contracts. 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 2.10 for initial and subsequent measurement for financial guarantee liability.

3.4 Valuation of share-based compensation expenses

The fair value of share-based awards 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 before listing and has used market price of the ordinary shares of the Company to determine the fair value of share awards after listing. 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 and share awards that are 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-based 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 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 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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.

3.7 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 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 IMPACT OF THE COVID-19 PANDEMIC

After the outbreak of the Covid-19 Pandemic in early 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC. However, the ongoing outbreak of the Covid-19 Pandemic put considerable downward pressure on the economy in the PRC and caused a decline in personal consumption and demand for personal consumer credit, which have resulted in a decrease in the volume of loan origination and credit facilitation activities.

4 IMPACT OF THE COVID-19 PANDEMIC (continued)

The credit risk and liquidity risk of the credit facilitation business also increased to a certain extent. The Group has assessed the impact of the Covid-19 Pandemic, the credit exposures and ECL of the Group's credit facilitation business and reflected the impact in the consolidated financial statements (See Note 5(a)(3) and Note 5(a)(4)). The ECL as at each reporting date was estimated based on a range of forecast economic conditions as at that date. The impact on gross domestic product and other key indicators were considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate under IFRS 9.

The Group will continue to monitor the situation of the Covid-19 Pandemic outbreak, assess and react actively to its impact on the financial position and operating results of the Group.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk, credit risk, liquidity risk and operation 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 and senior notes in the Group's Hong Kong subsidiary and the Company.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

	As at December 31, 2020				As at December 31, 2019			
	HKD	**USD**	**EUR**	**Total**	HKD	USD	EUR	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	**13,988**	**51,027**	**—**	**65,015**	4,433	45,545	48	50,026
Senior notes	**—**	**(628,834)**	**—**	**(628,834)**	—	(678,829)	—	(678,829)
Net exposure to foreign currency risk	**13,988**	**(577,807)**	**—**	**(563,819)**	4,433	(633,284)	48	(628,803)

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(1) *Market risk — foreign exchange risk* (continued)

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 (loss)/profit before income tax:

	Expected changes in (loss)/profit before income tax Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
5% appreciation of RMB	**28,191**	31,440
5% depreciation of RMB	**(28,191)**	(31,440)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index:

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

Therefore, the actual changes of (loss)/profit before income tax 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.

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(2) Market risk — interest rate risk (continued)

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, 2020				
	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	1,501,830	—	—	—	1,501,830
Restricted cash	—	99,204	137,076	—	236,280
Loans to customers at fair value through profit or loss	1,889,184	2,055,857	83,124	—	4,028,165
Guarantee receivables	—	—	—	708,703	708,703
Financial assets at fair value through profit or loss	285	—	—	20,000	20,285
Other financial assets	25,005	—	43,185	548,720	616,910
Total financial assets	3,416,304	2,155,061	263,385	1,277,423	7,112,173
LIABILITIES					
Borrowings	(540,219)	(2,774,580)	(755,750)	(24,750)	(4,095,299)
Senior notes	—	(114,670)	(509,087)	(5,077)	(628,834)
Lease liabilities	(6,653)	(20,844)	(20,479)	—	(47,976)
Guarantee liabilities	—	—	—	(807,421)	(807,421)
Other financial liabilities	(5,673)	(6,375)	—	(135,171)	(147,219)
Total financial liabilities	(552,545)	(2,916,469)	(1,285,316)	(972,419)	(5,726,749)
Total interest rate sensitivity gap	2,863,759	(761,408)	(1,021,931)	305,004	1,385,424

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(2) *Market risk — interest rate risk* (continued)

	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

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.

5 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 (loss)/profit 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 and 2020, caused by a parallel shift of 50 basis points of RMB, USD, HKD and EUR interest rates.

	Expected changes in (loss)/profit before income tax Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
+50 basis points	**11,101**	9,907
-50 basis points	**(11,101)**	(9,907)

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's equity would approximately increase/decrease by RMB8.33 million for the year ended 31 December 2020 (2019: RMB7.43 million).

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 (loss)/profit before income tax and equity may differ from the analysis above.

5 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 and other financial assets, but can also arise from credit enhancement provided, such as financial guarantees. 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 relation 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.

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.

5 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).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

<u>Change in credit quality since initial recognition</u>

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:

5 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 monitor and review the criterias used to identify SICR periodically for appropriateness by the independent Credit Risk team based on changes in credit quality since initial recognition, including probability of default, loss given default, etc. According to the independent Credit Risk team's updated evaluation, the Group considers a financial instrument to have experienced a significant increase in credit risk if the borrower is past due on its contractual payments in this reporting period, while considered 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 in the comparative reporting period. The change to the presentation of the three stages was expected to have little impact on the results of ECL provision in the current reporting period and in the future.

No qualitative criterion is considered by the Group since the Group monitors the risk of borrowers purely based on overdue period.

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 one month past due on its contractual payments in this reporting period while defined credit-impaired if the borrower is overdue more than three months on its contractual payments in the comparative reporting period. 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.

5 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)

- 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.

- 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.

5 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 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.

Except for the reevaluation of the definition of SICR and default as stated above which resulted in the different presentation of the three stages, there have been no other 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 variables impacting credit risk and expected credit losses for each portfolio.

The Group applies expert judgment in the forecast of the economic variables to obtain the best estimate view of the economy over the next one year. The impact of the economic variables on the PD has been determined by performing Eucilidean Distance analysis to understand the impact changes in the variables 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. As at December 31, 2019 and 2020, 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).

5 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)

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 variables impacting credit risk and ECL for loan portfolio.

Key economic variables	**Scenario**	**2020**	2019
CPI (Consumer Price Index)	Base	**0.57%–1.98%**	3.09%–3.44%
	Upside	**1.28%–2.68%**	3.62%–4.07%
	Downside	**-0.13%–1.28%**	2.11%–2.57%
GDP (Gross Domestic Product)	Base	**7.74%–9.89%**	5.77%–6.14%
	Upside	**8.82%–10.97%**	5.94%–6.44%
	Downside	**6.67%–8.82%**	5.55%–6.04%

The Group uses economic variable assumptions when it determines expected CPI and GDP. The weightings assigned to each economic scenario at December 31, 2020 were as follows:

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

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are CPI and GDP.

Set out below are the changes to the ECL as at December 31, 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***
	-0.5 σ	**141,051**	**68,396**	**—**
CPI	**No change**	**68,396**	**—**	**(63,953)**
	+0.5 σ	**—**	**(63,953)**	**(118,193)**

5 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)

Sensitivity analysis (continued)

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 impairment provision as at December 31, 2020 would be reduced by RMB7.95 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 impairment provision as at December 31, 2020 would be increased by RMB13.22 million.

Maximum exposure to credit risk before collateral held or other credit enhancements

	As at December 31, 2020			
	Stage 1 *RMB'000*	**Stage 2** *RMB'000*	**Stage 3** *RMB'000*	**Maximum Credit Risk Exposure** *RMB'000*
Cash and cash equivalents	**1,501,830**	**—**	**—**	**1,501,830**
Restricted cash	**236,280**	**—**	**—**	**236,280**
Contract assets	**340,610**	**911**	**336**	**341,857**
Guarantee receivables	**705,424**	**2,204**	**1,075**	**708,703**
Other assets	**616,910**	**—**	**—**	**616,910**
	3,401,054	**3,115**	**1,411**	**3,405,580**

	As at December 31, 2019			
	Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Maximum Credit Risk Exposure *RMB'000*
Cash and cash equivalents	2,169,522	—	—	2,169,522
Restricted cash	264,584	—	—	264,584
Contract assets	517,510	3,754	1,758	523,022
Guarantee receivables	616,053	3,558	1,637	621,248
Other assets	598,515	—	—	598,515
	4,166,184	7,312	3,395	4,176,891

The outstanding loan balance of credit-enhanced loan facilitation service is RMB9,709.92 million as at December 31, 2020 (2019: RMB7,374.13 million).

5 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, 2020				
	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	1,500,771	—	1,129	—	1,501,900
Restricted cash	—	—	99,550	138,079	237,629
Loans to customers at fair value through profit or loss	—	34,932	4,258,428	55,182	4,348,542
Financial assets at fair value through profit or loss	285	—	—	20,000	20,285
Guarantee receivables	—	3,279	704,772	652	708,703
Other financial assets	—	—	197,130	423,190	620,320
Total financial assets	1,501,056	38,211	5,261,009	637,103	7,437,379
Liabilities					
Borrowings	—	—	(3,508,118)	(832,684)	(4,340,802)
Senior notes	—	—	(183,195)	(615,624)	(798,819)
Lease liabilities	—	—	(27,251)	(22,989)	(50,240)
Guarantee liabilities	—	—	(804,288)	(3,133)	(807,421)
Other financial liabilities	—	—	(146,274)	(945)	(147,219)
Total financial liabilities	—	—	(4,669,126)	(1,475,375)	(6,144,501)
Net value	1,501,056	38,211	591,883	(838,772)	1,292,878

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(4) *Liquidity risk* (continued)

	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

(5) *Operation risk*

Operation risk is the risk of loss resulting from inadequate or failure of proper internal controls on business processes, employees and systems or from uncontrollable external events. The Group is exposed to many types of operation risks in the conduct of its business. The Group attempts to manage operation risk by establishing clear policies and requiring well documented business processes to ensure that transactions are properly authorized, supported and recorded.

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(5) Operation risk (continued)

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 Group has acknowledged the requirements set forth in the Circular and noted the potential non-compliance risk for its current business models, being the trust scheme operations, and the back-to-back guarantees provided to third-party financing guarantee companies as part of the Group's loan facilitation business. Such potential non-compliance could subject the Group to penalties and/or it being required to change its current business models.

The Group is working to amend its current business plans, including increasing the proportion of business through its own financial guarantee company and restructuring future credit enhancement arrangements, to cope with the implications of the Circular. Taking into consideration current market practice and the implementation status of the related regulatory requirements, the Group has assessed that the potential impact of changes to its future business plans is not significant and does not believe that it is probable there will be a material outflow of resources during the process of complying with the new regulations. The Group will pay close attention to market developments and will continue to monitor the impact to its operations and financial position.

(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 Company, the Group's capital risk is low.

5 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, 2020 on a recurring basis:

	Valuation techniques and key input	**As at December 31, 2020**			
		Level 1	**Level 2**	**Level 3**	**Total**
		RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Assets					
Loans to customers at fair value through profit or loss	Discounted cash flow method (i)	**—**	**—**	**4,028,165**	**4,028,165**
Financial assets at fair value through profit or loss					
— Unlisted equity investment	Dealer quotes for similar instruments	**—**	**—**	**20,000**	**20,000**
— Money market funds	Quoted market price	**285**	**—**	**—**	**285**
		285	**—**	**4,048,165**	**4,048,450**

	Valuation techniques and key input	As at December 31, 2019			
		Level 1	Level 2	Level 3	Total
		RMB'000	*RMB'000*	*RMB'000*	*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					
— Money market funds	Quoted market price	280	—	—	280
		280	—	9,457,673	9,457,953

(i) The valuation techniques mainly include risk-free interest rates, benchmark interest rates, etc.

5 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 years ended December 31, 2019 and 2020:

	Loans to customers at fair value through profit or loss *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
At January 1, 2020	**9,457,673**	**—**	**9,457,673**
Additions	**12,665,200**	**20,000**	**12,685,200**
Disposals	**(15,865,187)**	**—**	**(15,865,187)**
Losses recognized in profit or loss	**(2,229,521)**	**—**	**(2,229,521)**
At December 31, 2020	**4,028,165**	**20,000**	**4,048,165**
At January 1, 2019	8,863,246	—	8,863,246
Additions	18,270,541	—	18,270,541
Disposals	(15,617,632)	—	(15,617,632)
Losses recognized in profit or loss	(2,058,482)	—	(2,058,482)
At December 31, 2019	9,457,673	—	9,457,673

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at December 31, 2020.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value measurement of financial instruments (continued)

Fair value hierarchy (continued)

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.

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, 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 loans 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 managements estimated the risk-free interest rate based on the yield of China Government Bonds with a maturity equal to periods from the respective reporting date to expected cash flow date.

The table below illustrates the impact to (loss)/profit before income tax for the year ended December 31, 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	**Year ended December 31,**	
	2020	2019
	RMB'000	*RMB'000*
+100 basis points	**(11,660)**	(31,074)
-100 basis points	**11,575**	31,146

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value measurement of financial instruments (continued)

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 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

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Interest type income		
Loans to customers at fair value through profit or loss	**2,017,326**	2,642,081
Less: interest expenses		
Payable to trust plan holders	**(563,190)**	(728,433)
Senior notes	**(90,251)**	(44,438)
Borrowings from corporations	**(60,341)**	(77,578)
Borrowings from individuals	**—**	(8,153)
Secured borrowings	**—**	(13)
Others	**(2,133)**	(3,559)
	(715,915)	(862,174)
Net interest type income	**1,301,411**	1,779,907

7 LOAN FACILITATION SERVICE FEES

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Upfront loan facilitation service fees	**578,934**	1,119,343
Post loan facilitation service fees	**134,392**	128,034
	713,326	1,247,377

Note: The unsatisfied performance obligations as at December 31, 2020 are RMB79.56 million. Management expects that 99.83% of the transaction price allocated to the unsatisfied contracts as at December 31, 2020 will be recognized as revenue within the next 12 months.

8 OTHER INCOME

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Penalty and service charges	**314,908**	327,228
Membership fees and referral fees	**301,808**	794,581
Government grants	**34,975**	—
Technology and professional service fees	**—**	28,927
Losses from guarantee	**(99,368)**	(318,381)
Others	**6,091**	4,718
	558,414	837,073

9 EXPENSES BY NATURE

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Loan origination and servicing expenses	**(693,789)**	(593,525)
Employee benefit expenses *(Note 10)*	**(267,972)**	(520,559)
Professional service fees	**(80,114)**	(63,561)
Depreciation and amortization	**(64,931)**	(65,213)
Office expenses	**(36,359)**	(48,950)
Tax and surcharge	**(25,159)**	(22,619)
Branding expenses	**(6,645)**	(6,066)
Audit remuneration		
— Audit service fees	**(4,862)**	(5,000)
— Non-audit service fees	**(369)**	(154)
Others	**(13,372)**	(13,907)
Total origination and servicing expenses, sales and marketing expenses, general and administrative expenses, and research and development expenses	**(1,193,572)**	(1,339,554)

10 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Wages, salaries and bonuses	**(170,791)**	(171,573)
Pension costs — defined contribution plans	**(2,999)**	(18,473)
Other social security costs, housing benefits and other employee benefits	**(19,459)**	(27,095)
Share-based compensation expenses	**(74,723)**	(303,418)
	(267,972)	(520,559)

11 DIRECTORS' REMUNERATION

The remuneration of every director for the year ended December 31, 2020 is set out as follows:

	Director's fee RMB'000	Salaries, wages and bonuses 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)	5,352	503	23	81,678	87,556
Liu Sai Keung Thomas (b)	2,470	503	34	1,549	4,556
Non-Executive Director					
Ma Ting Hung (c)	—	—	1,693	6,691	8,384
Independent Non-Executive Directors					
Chen Penghui (d)	213	—	—	—	213
Seek Ngee Huat (e)	90	—	—	—	90
Wu Chak Man (f)	213	—	—	—	213
Fang Yuan (g)	78	—	—	—	78
	8,416	1,006	1,750	89,918	101,090

11 DIRECTORS' REMUNERATION (continued)

The remuneration of every director for the year ended December 31, 2019 is set out as follows:

	Director's fee *RMB'000*	Salaries, wages and bonuses *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)	2,657	527	13	185,912	189,109
Liu Sai Keung Thomas (b)	2,446	527	19	1,857	4,849
Non-Executive Director					
Ma Ting Hung (c)	—	—	1,647	15,513	17,160
Independent Non-Executive Directors					
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

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, and retired in June 2020.

(f) Appointed as director of the Company in June 2018.

(g) Appointed as director of the Company in August 2020.

12 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2019 and 2020 include 2 directors whose emoluments are reflected in the analysis shown in Note 11. Both 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, 2019 and 2020. The emoluments payable to the remaining 3 individuals for each of the years ended December 31, 2019 and 2020 are as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**2,723**	3,116
Pension costs — defined contribution plans	**8**	98
Other social security costs, housing benefits and other employee benefits	**429**	349
Share-based compensation expenses	**22,884**	48,546
	26,044	52,109

The emoluments fell within the following bands:

	Year ended December 31,	
	2020	2019
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**	3
	3	3

13 CREDIT IMPAIRMENT LOSSES

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Cash and cash equivalents	**(3)**	(1)
Restricted cash	**(27)**	(34)
Contract assets	**(80,396)**	(146,069)
Guarantee receivables	**(169,081)**	(165,586)
Other assets	**(6,081)**	2,589
	(255,588)	(309,101)

14 OTHER GAINS/(LOSSES), NET

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Exchange gains/(losses)	**38,153**	(10,261)
Bank interest income	**17,858**	12,439
Gain from repayment of senior notes	**3,411**	—
Gain from disposal of investments accounted for using the equity method	**468**	—
Gain from financial assets at fair value through profit or loss	**6**	1,781
Bank charges	**(2,742)**	(1,848)
Interest expense on lease liabilities	**(3,373)**	(2,548)
Others	**—**	(2,414)
	53,781	(2,851)

15 INCOME TAX CREDIT/(EXPENSE)

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Current income tax	**(6,467)**	(145,837)
Deferred income tax	**199,722**	46,296
	193,255	(99,541)

15 INCOME TAX CREDIT/(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)/profit of the consolidated entities as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit before income tax:	**(1,062,819)**	164,331
Tax calculated at PRC statutory income tax rate of 25%	**265,705**	(41,083)
Tax effects of:		
— Expenses not deductible for income tax purpose	**(20,624)**	(76,537)
Share-based compensation	**(18,681)**	(75,854)
Others	**(1,943)**	(683)
— Differential income tax rates applicable to the Company and subsidiaries (i)	**(56,193)**	14,628
— Super deduction for research and development expenses	**4,480**	4,724
— No recognition of deferred tax assets on tax losses	**(113)**	(1,273)
Income tax credit/(expense)	**193,255**	(99,541)

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

Cayman Islands

Our Company re-domiciled to the Cayman Islands by way of continuation as an exempted company with limited liability from the BVI prior to Listing. The Company is governed by the laws of the Cayman Islands after completion of the continuation. The Company is not subject to income tax under Cayman Islands' 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**") and Small Low-profit Enterprise.

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 2020, Vision Credit Financial Technology Co., Ltd was further approved as HNTE and will continue to enjoy the preferential income tax rate of 15% from 2020 to 2022. Therefore, Vision Credit Financial Technology Company was entitled to a preferential income tax rate of 15% for the year ended December 31, 2020.

15 INCOME TAX CREDIT/(EXPENSE) (continued)

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

China (continued)

The income tax rate of entities qualified as "Small Low-profit Enterprise" is 20%. From January 1, 2019 to December 31, 2021, the annual taxable income amount of small low-profit enterprise shall be calculated at a reduced rate of 25% when it does not exceed RMB1.00 million. The portion of annual taxable income amount which exceeds RMB1.00 million but does not exceed RMB3.00 million shall be calculated at a reduced rate of 50% as taxable income amount. Shanghai Tiantian Asset Management Co., Ltd., Chengdu Vcredit Jiaozi Digital Technology Co., Ltd. and Guangdong Weishi Data Technology Co., Ltd., which are indirect wholly-owned subsidiaries of the Company, were qualified as Small Low-profit Enterprises and were entitled to the aforementioned preferential income tax rate for the year ended December 31, 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 2018/2019, 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 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.

16 (LOSS)/EARNINGS PER SHARE

Weighted average number of ordinary shares used as the denominator

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
(Loss)/earnings attributable to owners of the Company	**(869,581)**	64,790
Weighted average number of ordinary shares for calculation of the basic earnings per share *('000)*	**491,946**	494,987
Weighted average number of ordinary shares for calculation of the diluted earnings per share *('000)*	**491,946**	502,738
Basic (loss)/earnings per share *(RMB yuan)*	**(1.77)**	0.13
Diluted (loss)/earnings per share *(RMB yuan)*	**(1.77)**	0.13

(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 in issue during the year.

(b) For the years ended December 31, 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 year ended December 31, 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 year ended December 31, 2020 was the same as basic loss per share.

For the 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).

17 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Cash at bank	**1,139,148**	1,130,115
Cash held through platform (i)	**362,687**	1,039,409
Less: ECL allowance	**(5)**	(2)
	1,501,830	2,169,522

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

17 CASH AND BANK BALANCES (continued)

(b) Restricted cash

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Deposits	**236,360**	264,637
Less: ECL allowance	**(80)**	(53)
	236,280	264,584

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

18 LOANS TO CUSTOMERS AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of loans is as follows:

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Unsecured	**3,936,927**	8,822,968
Pledged	**91,238**	634,705
	4,028,165	9,457,673

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 rights were taken by the Group, and the Group was entitled to the residual profits/losses 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 operating activities of the trust plans. As a result, the Group was considered the ultimate beneficiary of the trust plans and consolidated the trust plans' assets, liabilities, results of operations and cash flows.

18 LOANS TO CUSTOMERS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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

	As at December 31, 2020 *RMB'000*	2019 *RMB'000*
Within 1 year (including 1 year)	**3,880,034**	8,028,905
1 to 2 years (including 2 years)	**15,145**	260,124
2 to 5 years (including 5 years)	**132,986**	1,168,644
	4,028,165	9,457,673

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

	As at December 31, 2020 *RMB'000*	2019 *RMB'000*
Overdue	**34,932**	506,965
Within 1 year (including 1 year)	**3,904,881**	8,256,618
1 to 2 years (including 2 years)	**10,244**	363,427
2 to 5 years (including 5 years)	**78,108**	330,663
	4,028,165	9,457,673

19 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, 2020 *RMB'000*	2019 *RMB'000*
Contract assets	**389,568**	655,815
Less: ECL allowance	**(47,711)**	(132,793)
	341,857	523,022

19 CONTRACT ASSETS (continued)

Movement of gross carrying amount

Contract assets	Year ended December 31, 2020 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Opening balance at January 1, 2020	**571,352**	**43,084**	**41,379**	**655,815**
New financial assets originated or purchased	**807,607**	**—**	**—**	**807,607**
Transfer for the year:				
From stage 1 to stage 2	**(5,293)**	**5,293**	**—**	**—**
From stage 1 to stage 3	**(100,846)**	**—**	**100,846**	**—**
From stage 2 to stage 1	**25**	**(25)**	**—**	**—**
From stage 2 to stage 3	**—**	**(42,422)**	**42,422**	**—**
From stage 3 to stage 2	**—**	**6**	**(6)**	**—**
Asset derecognised (including final repayment)	**(894,940)**	**(1,269)**	**(12,167)**	**(908,376)**
Asset written off	**—**	**—**	**(165,478)**	**(165,478)**
Changes of accounting estimates of SICR and credit-impaired assets	**(2,968)**	**(1,401)**	**4,369**	**—**
Ending balance	**374,937**	**3,266**	**11,365**	**389,568**

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	1,267,788	—	—	1,267,788
Transfer for the year:				
From stage 1 to stage 2	(43,084)	43,084	—	—
From stage 1 to stage 3	(71,983)	—	71,983	—
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)	(744,150)	(242)	(8,447)	(752,839)
Asset written off	—	—	(33,173)	(33,173)
Ending balance	571,352	43,084	41,379	655,815

19 CONTRACT ASSETS (continued)

Movement of ECL allowance

ECL allowance	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
	Year ended December 31, 2020			
Opening balance at January 1, 2020	**(53,842)**	**(39,330)**	**(39,621)**	**(132,793)**
New financial assets originated or purchased	**(75,557)**	**—**	**—**	**(75,557)**
Transfer for the year:				
From stage 1 to stage 2	**495**	**(4,841)**	**—**	**(4,346)**
From stage 1 to stage 3	**9,435**	**—**	**(96,944)**	**(87,509)**
From stage 2 to stage 1	**(2)**	**23**	**—**	**21**
From stage 2 to stage 3	**—**	**38,797**	**(40,781)**	**(1,984)**
From stage 3 to stage 2	**—**	**(5)**	**6**	**1**
Asset derecognised (including final repayment)	**83,464**	**1,161**	**11,696**	**96,321**
Changes to risk parameters (model inputs)	**(675)**	**(82)**	**(6,586)**	**(7,343)**
Asset written off	**—**	**—**	**165,478**	**165,478**
Changes of accounting estimates of SICR and credit-impaired assets	**2,355**	**1,922**	**(4,277)**	**—**
Ending balance	**(34,327)**	**(2,355)**	**(11,029)**	**(47,711)**

ECL allowance	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
	Year ended December 31, 2019			
Opening balance at January 1, 2019	(9,364)	(5,013)	(5,519)	(19,896)
New financial assets originated or purchased	(93,158)	—	—	(93,158)
Transfer for the year:				
From stage 1 to stage 2	3,165	(39,196)	—	(36,031)
From stage 1 to stage 3	5,289	—	(69,099)	(63,810)
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)	54,818	220	8,109	63,147
Changes to risk parameters (model inputs)	(14,592)	(149)	(1,216)	(15,957)
Asset written off	—	—	33,173	33,173
Ending balance	(53,842)	(39,330)	(39,621)	(132,793)

19 CONTRACT ASSETS (continued)

Movement of ECL allowance (continued)

	Year ended December 31, 2020			
ECL allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
ECL charge for the period	**19,515**	**36,975**	**(136,886)**	**(80,396)**

	Year ended December 31, 2019			
ECL allowance	Stage 1	Stage 2	Stage 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ECL charge for the period	(44,478)	(34,317)	(67,274)	(146,069)

Note: The Group receives upfront payments from borrowers at loan inception and subsequent payments over the term of the loan. Contract assets represent 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, 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 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.

20 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Guarantee receivables	**822,776**	760,973
Less: ECL allowance	**(114,073)**	(139,725)
	708,703	621,248

A summary of the Group's guarantee receivables movement for the years ended December 31, 2019 and 2020 is presented below:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Guarantee receivables		
Opening balance	**621,248**	206,146
Addition arising from new business	**1,699,543**	1,426,080
ECL	**(169,081)**	(165,586)
Reversal due to early repayment	**(165,549)**	(80,384)
Payment received from borrowers	**(1,277,458)**	(765,008)
Ending balance	**708,703**	621,248

20 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (continued)

Movement of gross carrying amount

Guarantee receivables	**Year ended December 31, 2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Opening balance at January 1, 2020	**682,268**	**40,223**	**38,482**	**760,973**
New financial assets originated or purchased	**1,699,543**	**—**	**—**	**1,699,543**
Transfer for the year:				
From stage 1 to stage 2	**(13,214)**	**13,214**	**—**	**—**
From stage 1 to stage 3	**(144,741)**	**—**	**144,741**	**—**
From stage 2 to stage 3	**—**	**(39,648)**	**39,648**	**—**
Asset derecognised (including final repayment)	**(1,436,746)**	**(555)**	**(5,706)**	**(1,443,007)**
Asset written off	**—**	**—**	**(194,733)**	**(194,733)**
Changes of accounting estimates of SICR and credit-impaired assets	**(6,916)**	**(5,306)**	**12,222**	**—**
Ending balance	**780,194**	**7,928**	**34,654**	**822,776**

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	1,426,080	—	—	1,426,080
Transfer for the year:				
From stage 1 to stage 2	(40,247)	40,247	—	—
From stage 1 to stage 3	(85,922)	—	85,922	—
From stage 2 to stage 3	—	(8,696)	8,696	—
Asset derecognised (including final repayment)	(834,096)	(405)	(10,891)	(845,392)
Asset written off	—	—	(55,649)	(55,649)
Ending balance	682,268	40,223	38,482	760,973

20 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (continued)

Movement of ECL allowance

ECL allowance	Year ended December 31, 2020 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Opening balance at January 1, 2020	**(66,215)**	**(36,665)**	**(36,845)**	**(139,725)**
New financial assets originated or purchased	**(165,391)**	**—**	**—**	**(165,391)**
Transfer for the year:				
From stage 1 to stage 2	**1,286**	**(12,083)**	**—**	**(10,797)**
From stage 1 to stage 3	**14,086**	**—**	**(138,466)**	**(124,380)**
From stage 2 to stage 3	**—**	**36,254**	**(37,929)**	**(1,675)**
Asset derecognised (including final repayment)	**138,675**	**507**	**5,461**	**144,643**
Changes to risk parameters (model inputs)	**(2,935)**	**(152)**	**(8,394)**	**(11,481)**
Asset written off	**—**	**—**	**194,733**	**194,733**
Changes of accounting estimates of SICR and credit-impaired assets	**5,724**	**6,415**	**(12,139)**	**—**
Ending balance	**(74,770)**	**(5,724)**	**(33,579)**	**(114,073)**

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	(105,615)	—	—	(105,615)
Transfer for the year:				
From stage 1 to stage 2	2,981	(36,749)	—	(33,768)
From stage 1 to stage 3	6,363	—	(82,704)	(76,341)
From stage 2 to stage 3	—	7,940	(8,370)	(430)
Asset derecognised (including final repayment)	60,880	370	10,483	71,733
Changes to risk parameters (model inputs)	(19,405)	76	(1,836)	(21,165)
Asset written off	—	—	55,649	55,649
Ending balance	(66,215)	(36,665)	(36,845)	(139,725)

20 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (continued)

Movement of ECL allowance (continued)

	Year ended December 31, 2020			
ECL allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
ECL Income statement charge for the period	**(8,555)**	**30,941**	**(191,467)**	**(169,081)**

	Year ended December 31, 2019			
ECL allowance	Stage 1	Stage 2	Stage 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ECL Income statement charge for the period	(54,796)	(28,363)	(82,427)	(165,586)

A summary of the Group's guarantee liabilities movement for the years ended December 31, 2019 and 2020 is presented below:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Guarantee liabilities		
Opening balance	**723,617**	204,496
Addition arising from new business	**1,699,543**	1,426,080
Release of the margin	**(108,553)**	(99,793)
ECL	**207,921**	418,174
Reversal due to early repayment	**(165,549)**	(80,384)
Payouts during the year, net	**(1,549,558)**	(1,144,956)
Ending balance	**807,421**	723,617

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Unlisted equity investment (i)	**20,000**	—
Money market fund	**285**	280
	20,285	280

(i) The Group invested RMB20.00 million to acquire 10.92 million shares of Guoren Property and Casualty Insurance Co., Ltd. ("**Guoren**") to become one of its shareholders with a 0.27% interest in Guoren. Guoren 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 was approved by CBIRC on April 9, 2020. And the management designated this equity investment as at fair value through profit or loss on initial recognition.

22 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Set out below is the associate of the Group which, in the opinion of the directors, is material to the Group. The entity listed below has share capital consisting solely of ordinary shares, which is held directly by the Group. The country of incorporation or registration is also its 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
Shanghai COSCO Shipping Small Loan Co., Ltd	PRC	10.00	*	December 28, 2017

* The Group invested in Shanghai COSCO Shipping Small Loan Co., Ltd. as a 10.00% shareholder for a consideration of RMB20.00 million. 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,	
	2020	2019
	RMB'000	*RMB'000*
Assets	**238,855**	208,254
Equity	**206,261**	203,466
Net profit	**2,848**	3,406

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

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Opening balance	**37,430**	27,684
Share of net (loss)/profit	**(11,070)**	9,962
Disposal (i)	**(6,107)**	—
Translation difference	**373**	(216)
Ending balance	**20,626**	37,430

(i) The Group invested in Apass Holdings Company Limited as a 40.00% shareholder for a consideration of HK$20.00 million on June 14, 2016 and disposed the investment on May 27, 2020. The Group recognized a gain of RMB0.47 million from the disposal (Note 14).

23 DEFERRED INCOME TAX

	As at December 31,			
	2020		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*
Deferred income tax assets				
ECL allowance	**730,896**	**173,118**	475,308	118,827
Fair value change of loans to customers	**2,863,607**	**587,609**	2,285,951	563,120
Others	**89,566**	**13,435**	—	—
	3,684,069	**774,162**	2,761,259	681,947
Deferred income tax liabilities				
Unrealized gains	**(1,050,108)**	**(191,596)**	(1,439,867)	(299,103)
Others	**(2,756)**	**(689)**	(2,756)	(689)
	(1,052,864)	**(192,285)**	(1,442,623)	(299,792)
Net deferred income tax assets	**2,631,205**	**581,877**	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 December 31,	
	2020	2019
	RMB'000	*RMB'000*
Deferred income tax assets	**682,573**	468,256
Deferred income tax liabilities	**(100,696)**	(86,101)
Net deferred income tax assets	**581,877**	382,155

23 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, 2020	**118,827**	**563,120**	**(299,103)**	**(689)**	**382,155**
Recognized in the profit or loss	**54,291**	**24,489**	**107,507**	**13,435**	**199,722**
As at December 31, 2020	**173,118**	**587,609**	**(191,596)**	**12,746**	**581,877**
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

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 December 31, 2020, the Group did not recognise deferred income tax assets in respect of tax losses and deductible temporary differences of approximately RMB0.11 million, respectively (As at December 31, 2019: RMB1.27 million).

24 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, 2020 RMB'000	2019 RMB'000
Right-of-use assets		
Buildings	**45,907**	25,824

	As at December 31, 2020 RMB'000	2019 RMB'000
Lease liabilities	**47,976**	25,197

Addition to the right-of-use assets during the year ended December 31, 2020 were RMB56.78 million (2019: RMB16.77 million).

(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, 2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets		
Buildings	**32,300**	34,702
Interest expense (included in other losses)	**3,373**	2,548
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)	**8,271**	5,631

The total cash outflow for leases in 2020 was RMB34.38 million (2019: RMB36.77 million).

25 INTANGIBLE ASSETS

	Software *RMB'000*
Cost	
As at January 1, 2020	**32,382**
Additions	**16,928**
As at December 31, 2020	**49,310**
Accumulated amortisation	
As at January 1, 2020	**(10,207)**
Amortisation charge for the year	**(3,725)**
As at December 31, 2020	**(13,932)**
Net book value	
As at December 31, 2020	**35,378**
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

There is no indication that intangible assets have suffered an impairment loss during the year ended December 31, 2020.

26 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, 2020	11,934	3,531	6,713	68,440	32,875	353	123,846
Additions	–	–	1,371	13,601	1,686	600	17,258
Disposals	–	(171)	(319)	(656)	(2,850)	–	(3,996)
Transfers	–	–	–	–	533	(533)	–
Foreign currency translation reserve	–	–	(242)	–	(175)	–	(417)
As at December 31, 2020	11,934	3,360	7,523	81,385	32,069	420	136,691
Accumulated depreciation							
As at January 1, 2020	(3,082)	(1,853)	(4,272)	(40,906)	(22,537)	–	(72,650)
Depreciation charge for the year	(596)	(662)	(198)	(18,052)	(9,398)	–	(28,906)
Disposals	–	171	319	656	2,850	–	3,996
Foreign currency translation reserve	–	–	132	–	95	–	227
As at December 31, 2020	(3,678)	(2,344)	(4,019)	(58,302)	(28,990)	–	(97,333)
Net book value							
As at December 31, 2020	8,256	1,016	3,504	23,083	3,079	420	39,358

26 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, 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

There is no indication that property and equipment have suffered an impairment loss during the year ended December 31, 2020.

27 OTHER ASSETS

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Security deposits in financial institutions	**481,710**	333,523
Due from business partners	**105,634**	184,177
Prepaid expense	**44,535**	48,737
Prepayment of equity investment [(i)]	**30,600**	20,000
Rental deposits	**6,632**	8,061
Receivable from third party payment companies	**—**	54,208
Other deposits and receivables	**14,787**	1,026
	683,898	649,732
Less: ECL allowance	**(7,666)**	(1,585)
	676,232	648,147

(i) As at December 31, 2020, the Group has prepaid RMB30.60 million to acquire 20.00 million shares of a third-party company to become one of its shareholders. The increase of the registered capital has not been approved as at December 31, 2020.

(As at December 31, 2019, the Group has prepaid RMB20.00 million to acquire 10.92 million shares of Guoren to become one of its shareholders with a 0.27% interest in Guoren. The increase of the registered capital of Guoren had not been approved by CBIRC as at December 31, 2019.)

28 BORROWINGS

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Payable to trust plan holders	**3,755,797**	8,637,946
Borrowings from corporations	**339,502**	598,383
	4,095,299	9,236,329

28.1 Effective interest rates of borrowings

	As at December 31,	
	2020	2019
Payable to trust plan holders	**6.60%~13.00%**	6.80%~12.50%
Borrowings from corporations	**6.25%~12.00%**	6.25%~12.00%

28 BORROWINGS (continued)

28.2 Contractual maturities of borrowings

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**1,122,586**	3,721,399
Between 1 and 2 years	**2,641,563**	4,903,920
Between 2 and 5 years	**331,150**	611,010
	4,095,299	9,236,329

28.3 Borrowings by repayment schedule

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**3,339,549**	8,382,699
Between 1 and 2 years	**755,750**	626,210
Between 2 and 5 years	**—**	227,420
	4,095,299	9,236,329

29 SENIOR NOTES

The senior notes (the "**Notes**") are comprised of the US$85.00 million 11.0% senior notes due 2022 issued on December 3, 2020 (the "**New Notes**") and the remaining principal amount of US$17.75 million of the US$100.00 million 11.0% senior notes due 2021 issued on June 21, 2019 (the "**Old Notes**"). The Notes are listed on the Stock Exchange.

On June 21, 2019, the Company issued 2-year senior notes with an aggregate principal amount of US$100.00 million, 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. The Old Notes are guaranteed by Vision Credit Limited and Asia Jumbo Group Limited, which are wholly owned subsidiaries of the Company.

On December 3, 2020, the Company issued and delivered a principal amount of US$76.94 million of New Notes in exchange for the surrender and cancellation of a principal amount of US$72.25 million of the Old Notes pursuant to an exchange offer made by the Company to holders of the Old Notes (the "**Exchange Offer**"). The Company issued US$8.06 million principal amount of additional New Notes pursuant to a concurrent new money issuance (the "**Concurrent New Money Issuance**"). The aggregate principal amount of New Notes issued under the Exchange Offer and the Concurrent New Money Issuance is US$85.00 million. The New Notes will mature on December 3, 2022. The coupon rate of the senior notes is 11% per annum and shall be payable semi-annually in arrears.

29 SENIOR NOTES (continued)

On December 21, 2020, the Company repurchased an aggregate principal amount of US$10.00 million of the Notes (the "**Repurchased Notes**") by way of private treaty from Advance Tech Limited ("**ATL**") at a total repurchase price of US$9.40 million. ATL is a subsidiary of ITC Properties Group Limited ("**ITC**"), a company listed on the Stock Exchange under stock code 199. Each of ATL and ITC is an independent third party and is not a connected person (as defined in the Listing Rules) 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.

	Senior notes due 2021 (Stock Code: 5064) *RMB'000*	Senior notes due 2022 (Stock Code: 40498) *RMB'000*	Total *RMB'000*
As at January 1, 2020	**678,829**	**—**	**678,829**
Issuance	**—**	**510,147**	**510,147**
Accrued interest	**71,412**	**4,961**	**76,373**
Discount amortization	**12,179**	**1,699**	**13,878**
Interest expense paid	**(73,285)**	**—**	**(73,285)**
Exchange to New Notes	**(468,442)**	**—**	**(468,442)**
Repurchase	**(64,816)**	**—**	**(64,816)**
Exchange difference	**(40,822)**	**(3,028)**	**(43,850)**
As at December 31, 2020	**115,055**	**513,779**	**628,834**

	Senior notes due 2021 (Stock Code: 5064) *RMB'000*	Senior notes due 2022 (Stock Code: 40498) *RMB'000*	Total *RMB'000*
As at January 1, 2019	—	—	—
Issuance	660,602	—	660,602
Accrued interest	40,222	—	40,222
Discount amortization	6,630	—	6,630
Interest expense paid	(37,941)	—	(37,941)
Exchange difference	9,316	—	9,316
As at December 31, 2019	678,829	—	678,829

30 OTHER LIABILITIES

	As at December 31, 2020 RMB'000	2019 RMB'000
Accrued service fees	**113,845**	157,851
Due to financial institutions	**135,171**	102,800
Employee benefit liability	**37,899**	13,932
Accounts collected from borrowers in advance	**29,343**	—
Deposits collected from borrowers	**12,048**	32,849
Contract liabilities	**—**	849
Others	**7,758**	5,765
	336,064	314,046

31 SHARE CAPITAL AND SHARE PREMIUM

	Number of Ordinary shares ('000)	Share capital RMB'000	Share premium RMB'000
At January 1, 2020	**499,203**	**40,913**	**5,581,016**
Shares repurchased and cancelled *(i)*	**(5,643)**	**(501)**	**(20,971)**
Vesting of share award schemes	**—**	**—**	**(1,087)**
At December 31, 2020	**493,560**	**40,412**	**5,558,958**
At January 1, 2019	499,487	40,938	5,581,926
Issuance of ordinary shares to employees *(Note 34)*	277	25	2,122
Shares repurchased and cancelled	(561)	(50)	(3,032)
At December 31, 2019	499,203	40,913	5,581,016

(i) Particulars of the shares repurchased for the year ended December 31, 2020 are as follows:

	Number of Shares Repurchased ('000)	Lowest Price Paid in HKD per Share	Highest Price Paid in HKD per Share	Aggregate Consideration in HKD (Before Expenses) HKD'000
May	232	3.78	4.29	934
June	477	3.96	4.32	1,938
July	423	4.47	4.90	2,028
August	1,144	4.33	4.59	5,097
September	2,700	4.03	4.41	11,299
October	649	3.93	4.29	2,661
December	18	3.49	3.60	63

All of the shares repurchased for the year ended December 31, 2020 have been cancelled.

32 TREASURY SHARES

	As at December 31, 2020		As at December 31, 2019	
	Shares'000	*RMB'000*	*Shares'000*	*RMB'000*
Treasury shares held under share award scheme	**(4,761)**	**(37,747)**	(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 34.

Movements in treasury shares in 2020 are as follows:

	Year ended December 31,			
	2020		2019	
	Shares'000	*RMB'000*	*Shares'000*	*RMB'000*
Opening balance	**(6,530)**	**(51,774)**	—	—
Vesting of share awards	**1,769**	**14,027**	—	—
Acquisition of shares by the VCREDIT No. 1 Share Award Scheme Trust	**—**	**—**	(6,530)	(51,774)
Ending balance	**(4,761)**	**(37,747)**	(6,530)	(51,774)

33 RESERVES

	Share option reserves	Translation reserve	Total
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2020	**607,888**	**75,025**	**682,913**
Currency translation differences	**—**	**2,379**	**2,379**
Vesting of share awards	**(12,940)**	**—**	**(12,940)**
Share-based payment *(Note 10)*	**74,723**	**—**	**74,723**
As at December 31, 2020	**669,671**	**77,404**	**747,075**
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 10)*	303,418	—	303,418
As at December 31, 2019	607,888	75,025	682,913

34 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

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

34 SHARE-BASED PAYMENTS (continued)

Pre-IPO share option schemes (continued)

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, 2020	**0.8735**	**1.6123**	**1.6123**	**16,865**	**46,517**	**26,115**
Forfeited and expired during the year	**0.8735**	**1.6123**	**—**	**(2,302)**	**(5,542)**	**—**
Outstanding balance as at December 31, 2020	**0.8735**	**1.6123**	**1.6123**	**14,563**	**40,975**	**26,115**

	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
Forfeited and expired during the year	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

(i) For the year ended December 31, 2020, no proceeds arising from the exercise of share options are credited to share capital (2019: RMB25,000).

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.

34 SHARE-BASED PAYMENTS (continued)

Share award scheme (continued)

The granted share awards have a contractual maximum vesting period of four years, one-fourth of shares will vest each year expect for 85,000 award shares which will vest in 2 tranches.

Movement in the number of share awards for the year ended December 31, 2020 is as follows:

	Year ended December 31,	
	2020	2019
	Number of share awards ('000)	*Number of share awards ('000)*
Opening balance	**6,530**	—
Granted	**850**	6,530
Vested	**(1,769)**	—
Forfeited and expired	**(734)**	—
Ending balance	**4,877**	6,530

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

35 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 of the Group and their close family members are also considered as related parties.

The Group had following related party transactions for the years ended December 31, 2019 and 2020.

(a) Names and relationships with related parties

Name	Relationship
Liu Sai Wang Stephen	Executive Director
Liu Sai Keung Thomas	Executive Director
Ma Ting Hung	Non-executive Director
Seek Ngee Huat	Former independent non-executive Director
Chen Penghui	Independent non-executive Director
Wu Chak Man	Independent non-executive Director
Fang Yuan	Independent non-executive Director

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.

35 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Interest expenses	—	4,519

(c) 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, 2020 RMB'000	2019 RMB'000
Director's fee	8,416	5,737
Wages, salaries and bonuses	5,076	5,740
Pension costs-defined contribution plan	214	352
Other social security costs, housing benefits and other employee benefits	2,227	2,079
Share-based compensation expenses	114,669	254,150
	130,602	268,058

(d) Senior management's emoluments

The senior management's emoluments fell within the following bands:

	Year ended December 31, 2020	2019
Nil to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	—	—
Over HK$2,000,000	6	6
	7	7

36 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation from (loss)/profit before income tax to cash generated from operating activities:

	Year ended December 31, 2020 RMB'000	2019 RMB'000
(Loss)/profit before income tax	**(1,062,819)**	164,331
Adjustments for:		
Fair value change of loans to customers	**2,229,521**	2,058,482
Interest expenses	**715,915**	862,174
Credit impairment losses	**255,588**	309,101
Share-based payment	**74,723**	303,418
Depreciation and amortization	**64,931**	65,213
Share of net loss/(profit) of associates accounted for using the equity method	**11,070**	(9,962)
Interest expense on lease liabilities	**3,373**	2,548
(Gain)/loss on disposal of property and equipment, intangible assets	**(252)**	80
Gain from financial assets at fair value through profit or loss	**(6)**	(1,781)
Gain from disposal of investments accounted for using the equity method	**(468)**	—
Gain on repurchase of senior notes	**(3,411)**	—
Changes in operating assets and liabilities:		
Decrease/(increase) in loans to customers	**3,199,987**	(2,652,909)
Increase in contract assets and guarantee receivables	**(155,767)**	(1,095,636)
Increase in other operating assets	**(73,082)**	(86,150)
Increase in other operating liabilities	**176,438**	556,529
Cash generated from operating activities	**5,435,741**	475,438

36 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, 2020 RMB'000	2019 RMB'000
Cash and cash equivalents	**1,501,835**	2,169,524
Liquid investments (i)	**285**	280
Borrowings — repayable within one year (including overdraft)	**(3,339,549)**	(8,382,699)
Borrowings — repayable after one year	**(755,750)**	(853,630)
Senior notes	**(628,834)**	(678,829)
Lease liabilities	**(47,976)**	(25,197)
Net debt	**(3,269,989)**	(7,770,551)
Cash and liquid investments	**1,502,120**	2,169,804
Gross debt — fixed interest rates	**(4,772,109)**	(9,940,355)
Net debt	**(3,269,989)**	(7,770,551)

(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.

36 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(b) Net Debt Reconciliation (continued)

Net debt (continued)

	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 January 1, 2020	**2,169,524**	**280**	**(853,630)**	**(8,382,699)**	**(678,829)**	**(25,197)**	**(7,770,551)**
Foreign exchange adjustments	**3,822**	**—**	**—**	**—**	**43,850**	**—**	**47,672**
Cash flows	**(671,511)**	**—**	**(611,030)**	**6,375,591**	**92,985**	**34,375**	**5,220,410**
Other non-cash movements	**—**	**5**	**708,910**	**(1,332,441)**	**(86,840)**	**(57,154)**	**(767,520)**
As at December 31, 2020	**1,501,835**	**285**	**(755,750)**	**(3,339,549)**	**(628,834)**	**(47,976)**	**(3,269,989)**
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	—	—	—	—	—	(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)

37 COMMITMENTS

The Group did not have any other significant commitments as at December 31, 2020 (December 31, 2019: Nil), other than those mentioned above.

38 DIVIDENDS

No dividend has been paid or declared by the Company or the companies now comprising the Group during the year ended December 31, 2020 (2019: Nil).

39 CONTINGENT LIABILITY

The Group did not have any significant contingent liability as at December 31, 2020 (December 31, 2019: Nil).

40 SUBSEQUENT EVENTS

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

41 STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

(a) Statement of financial position — the Company

	As at December 31, 2020 RMB'000	2019 RMB'000
Assets		
Cash and cash equivalents	**45,638**	47,199
Investment in subsidiaries	**1,323,672**	1,415,700
Other assets	**1,912,430**	2,155,722
Total assets	**3,281,740**	3,618,621
Liabilities		
Senior notes	**628,834**	678,829
Total liabilities	**628,834**	678,829
Equity		
Share capital	**40,412**	40,913
Share premium	**5,558,958**	5,581,016
Treasury shares	**(37,747)**	(51,774)
Reserves	**808,889**	934,183
Accumulated losses	**(3,717,606)**	(3,564,546)
Total equity	**2,652,906**	2,939,792
Total liabilities and equity	**3,281,740**	3,618,621

The statement of financial position of the Company was approved by the Board of Directors on March 24, 2021, and was signed on its behalf by:

Ma Ting Hung
Director

Liu Sai Wang Stephen
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, 2020	**934,183**	**(3,564,546)**
Loss for the year	**—**	**(153,060)**
Currency translation differences	**(187,077)**	**—**
Vesting of share awards	**(12,940)**	**—**
Share-based payment	**74,723**	**—**
As at December 31, 2020	**808,889**	**(3,717,606)**
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)

Five Year Financial Summary

(in RMB mn)	2016	2017	2018	2019	2020
	For the Year Ended December 31,				
Total income	1,433	2,706	2,737	3,864	**2,573**
Operating (loss)/profit	(350)	347	102	154	**(1,052)**
Net (loss)/profit	(565)	(1,003)	(1,027)	65	**(870)**
Adjusted operating (loss)/profit (unaudited)	(330)	364	427	458	**(977)**
Adjusted net (loss)/profit (unaudited)	(275)	292	296	368	**(795)**

(in RMB mn)	2016	2017	2018	2019	2020
	As at December 31,				
Loans to customers at amortised cost	6,219	11,480	—	—	**—**
Loans to customers at fair value through profit or loss	N/A	N/A	8,863	9,458	**4,028**
Total assets	7,132	13,437	11,678	14,289	**8,337**
Total liabilities	7,941	14,946	8,893	11,189	**6,051**
Total (deficit)/equity	(809)	(1,509)	2,785	3,100	**2,286**
Adjusted total equity (unaudited)	751	1,534	2,785	3,100	**2,286**