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盛業資本
SHENG YE CAPITAL

SHENG YE CAPITAL LIMITED

盛業資本有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6069)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020

- The unaudited income from factoring and other services of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020 was RMB323.5 million representing an increase of approximately 36%, as compared to RMB237.5 million for the six months ended 30 June 2019.
- The unaudited profit after tax for the six months ended 30 June 2020 was RMB182.7 million representing an increase of approximately 46%, as compared to the profit after tax of approximately RMB124.9 million for the six months ended 30 June 2019.
- Unaudited basic and diluted earnings per share for six months ended 30 June 2020 was RMB20 cents and RMB20 cents respectively (six months ended 30 June 2019: basic and diluted earnings per share of RMB14 cents and RMB13 cents respectively).
- The Board does not recommend the payment of a dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. About Sheng Ye Capital

Sheng Ye Capital (the “**Group**” or “**SY Capital**”) is a leading data-driven supply chain financial services provider in China and is the first commercial factoring company listed on the Main Board of the Stock Exchange of Hong Kong Limited. Powered by fintech and an in-depth understanding of the industries it serves, SY Capital offers a range of flexible account receivable (“**AR**”)-based financing products and corporate services to meet the vast financing needs of underserved small, medium and micro enterprises (“**SMEs**”) in the region. The Group aims to become the most reliable data-driven supply chain fintech platform in Asia.

As of 30 June 2020, SY Capital had been included in the MSCI Small Cap China Index, the Hang Seng Composite Index and the Shenzhen-Hong Kong Stock Connect. Its major long-term institutional investors include Olympus Capital Asia, China Taiping, and Pavilion Capital, which is a wholly owned subsidiary of Temasek.

Fintech-driven Business Model

The Group has strategically collaborated with a number of large blue-chip core enterprises in the infrastructure, energy and medical sectors where SY Capital is able to integrate with core enterprises’ procurement systems and provide efficient financing services that are tailored to their upstream SME suppliers. The Group’s digitalized fintech solutions enhance efficiency, its proprietary data-driven risk control system mitigates the risk of fraud, and its closed-loop accounts monitoring system helps minimize embezzlement risk, all of which have enabled the Group to achieve a 0% non-performing loan (“**NPL**”) ratio since inception and an extension rate of 0.76% in the first half of 2020.

The Group’s proprietary cloud-based factoring platform, known as “Easy Factoring”, incorporates technology such as electronic signatures, optical character recognition (OCR), big data analytics, video authentication and facial recognition to ensure a seamless customer experience for online applications and the approval process.

As a leading fintech player in the supply chain financing market, the Group is dedicated to driving innovation through continual research and development (“**R&D**”). Sheng Ye Information Technology Service (Shenzhen) Co, Ltd, a wholly owned subsidiary of the Group, has been awarded the National High-Tech Enterprise in China. Meanwhile, IT engineers account for 37% of the Group’s total staff. With a vision of building a comprehensive and efficient fintech-driven supply chain financing ecosystem, SY Capital not only leverages its deep industry knowledge and R&D strength to provide software-as-a-service (“**SaaS**”) to its partners which include core enterprises, SME borrowers and financial institutions, but also provides more flexible products such as financing upon goods delivery.

The Group's robust and proven risk management system has gained the trust of 34 funding partners across the region, 18 partners more compared to that at the end of the first half of 2019. In addition to direct lending from banks, the Group is able to sell to financial institutions, such as trust companies factoring assets with non-recourse at gains, in order to put capital back to work and capture more market share. The demand for the Group's supply chain credit products surged in the first half of 2020 due to the relatively low interest rate environment and ample liquidity in the market. Furthermore, the Group also initiated SME-based loan facilitation in collaboration with banks, where banks lend directly to SMEs by tapping SY Capital's efficient customer acquisition channels and data-driven fintech capabilities so that both groups can control and share risk together. In return, SY Capital receives fees for IT support, account receivable management and guarantee services. The risk control process is identical for the underlying assets for both factoring asset sales and SME-based loan facilitation. These two innovative funding initiatives allowed SY Capital to rely less on its balance sheet, and enabled it to expand faster with an asset-light model while reaching out to more customers.

The Group is also an innovator in asset-backed securities ("ABS"). As the first issuer of medical AR ABS in China in 2018, the Group has started to facilitate the ABS issuance of large corporations by leveraging its proprietary cloud-based securitization platform to provide IT support, AR securitization and asset management services. By the end of the first half of 2020, the Group had backed and facilitated more than RMB11 billion in ABS issuance cumulatively. Services income generated from ABS facilitation during the first half of 2020 grew 600% year-on-year to RMB9.3 million.

For the first half of 2020, the Group transferred over RMB13 billion in AR turnover and deployed RMB6.5 billion of total loans. In the first half of 2020, it served more than 4,000 SME customers, including both commercial factoring and ABS services.

2. First Half 2020 Performance

As the first publicly traded and leading third-party commercial factoring company in China, SY Capital reinforced its leading position in the market with stellar results in the first half of 2020. In addition, the factoring industry also garnered more support and has been provided a clearer regulatory framework which allows the Group to capture the growing supply chain financing demand from SMEs. For example, the China Banking and Insurance Regulatory Commission ("CBIRC"), the governing body for non-banking and banking institutions, released its first official factoring regulatory notice, and the passage of the Civil Code of the People's Republic of China (the "Civil Code") by the legislators that legitimizes factoring contracts in China.

Limited Covid-19 Impact

Covid-19 continues to be a significant risk for the global economy in 2020, although pockets of second and third wave infections in Asia seem to be much more contained than elsewhere in the world. However, when the pandemic first hit Asia in early 2020, the supply chain saw huge disruptions. In the midst of this disruption, the Group helped its SME customers get through a difficult time, including allowing loan extensions and waiving extension fees to free up more capital for their working capital needs. In addition, the Group's 100% online loan application process allowed SME customers to obtain loans remotely and seamlessly during this time.

The Chinese government also put in place various measures to help SMEs regain their footing, and recognized the importance of supply chain financing to better support the underserved SMEs. A particular area that was emphasized was the importance of leveraging technology to improve financing efficiency and minimize credit risk. Fintech-driven supply chain financing companies such as SY Capital play a pivotal role in the financial inclusion scheme by serving SMEs that often fall outside of the banks' purview. As such, the supply chain financing sector remained resilient during the period. In addition, the three sectors on which the Group focuses remained more resilient and stable during the pandemic. The medical sector saw demand surge, and the infrastructure and energy sectors saw temporary disruptions but quickly rebounded given that they are pillars of Chinese economy. Total loans disbursed by the Group in the first half of 2020 rose 33% year-on-year.

China's economy rebounded in the second quarter, with GDP increasing 3.2% versus negative 6.8% in the first quarter, and was underpinned by robust demand from state-funded infrastructure projects. Capacity utilization in the second quarter returned to 74%, which was close to the usual trend range of 76-78% over the past few years, which indicates that the economy has largely returned to normal.

Commercial Factoring Demand Remained High

As China's economy slows, the percentage of credit sales continued to rise and credit terms further extended, which caused accounts receivable to expand. According to the China National Bureau of Statistics, accounts receivable for industrial enterprises in China reached RMB17.4 trillion in 2019 from RMB14.3 trillion in 2018. Commercial factoring in China grew 15% to RMB1.4 trillion in 2019, while traditional institution factoring volume declined, according to the latest report from Frost & Sullivan. Specifically, third-party commercial factoring volumes grew at a 78% CAGR from 2014 to 2019. A recent study by Coface¹ also showed that the energy and infrastructure sectors in China had the longest average credit terms of 96 and 107 days in 2019, respectively, and both increased incrementally year-on-year. Therefore, there have been an increase in the demand for factoring services in China, especially from SMEs to fund their working capital needs, particularly at the earlier stages of their lengthening settlement cycles. The Group specifically targets companies in the energy and infrastructure sectors, as well as the medical sector where credit term averages 84 days, due to their long payment cycles. The energy and infrastructure sectors are also highly capital intensive and have fragmented suppliers. Factoring helps to bridge the financing gap in the supply chain. The medical industry saw a surge in demand during the Covid-19 pandemic, which also caused factoring demand to rise rapidly.

Market Consolidation after Issuance of Notice 205

After the Notice 205 (the first official regulatory paper on factoring that sets industry regulations and gave support to third-party commercial factoring companies) was released by the CBIRC, the Chinese financial regulatory bureaus took measures to clear out unqualified factoring companies and maintain strict control on new registrations. As of the end of 2019, the total number of registered factoring companies in China dropped to 10,724 from 11,541 as of the end of 2018, according to the Commercial Factoring Expertise Committee (CFEC) of China. The Group believes it is well-positioned to benefit from market consolidation as regulations tighten.

¹ <https://www.coface.com/News-Publications/Publications/China-Payment-Survey-2020-Payment-delays-will-increase-further-because-of-COVID-19>

One of the core rules of Notice 205 restricts AR factoring from a single debtor and related parties to less than 50% and 40% of total loan book, respectively. This is favorable to independent third-party commercial factoring players such as SY Capital, and will allow the Group to explore new collaborations with corporate-backed factoring companies.

Industry Takes Big Step Forward with Inclusion of Factoring Contract Chapter in Civil Code

The inclusion of a Factoring Contract Chapter in the Civil Code, which will be enforced on 1 January 2021, not only made China the first country in the world to clearly define factoring contracts as a typical independent contract, but also affirmed the support and importance of the factoring industry from the Chinese government.

Given the industry pain points, the specific provisions of the Civil Code have established rules to clear major obstacles for the development of the industry. These provisions are of great significance in expanding the potential of the factoring market, preventing industry risks, and will play a highly positive role in promoting and standardizing the development of China's factoring industry.

Infrastructure, Energy and Medical Sectors – the Group's main areas of focus, Remain Resilient

According to the National Bureau of Statistics, the infrastructure industry rebounded sharply and grew 7.8% year-on-year in the second quarter of 2020, after a decline in the first quarter as the Covid-19 pandemic halted progress on many projects. The Group collaborated with Fortune 500 core enterprises that are the dominant leaders in the infrastructure market in China and remained resilient during the pandemic outbreak. For the remainder of 2020, the infrastructure market looks promising when compared to the first half of the year as local governments in China made huge stimulus investments in infrastructure, including "new infrastructure" projects (e.g. 5G networks, big data centers, internet of things networks, etc.), areas where the Group is exploring new opportunities, in an effort to boost GDP growth.

Since the full implementation of a two-invoice policy back in 2018, the medical sector has experienced market consolidation in an effort to drive more sustainable development. This sector is on a long-term structural uptrend due to China's aging population and growing middle class. Fueled by a surge in demand for medical services during the Covid-19 outbreak, the entire industry grew rapidly in the first half of 2020. The Group works with blue-chip medical logistics enterprises to provide funding to medicine and medical equipment suppliers.

The energy sector saw price fluctuations in the first half of 2020. However, the Group selectively works with large blue-chip energy core enterprises that lock up prices in advance and do not trade derivatives. As such, the Group strategically allocated more capital to this stable sector during the first half of 2020.

Enhancing Risk Control with Direct Integration of the People’s Bank of China’s (“PBoC”) Credit Reporting System

Following the integration of the Movable Financing Registry Portal from the Credit Reference Center of the People’s Bank of China (known as “**Zhongdengwang**”) in 2019, the Group further enhanced its risk control capabilities after its wholly owned subsidiary, Sheng Ye Factoring Limited, formally integrated the credit reporting system of the People’s Bank of China (“**PBOC Credit Reporting System**”). SY Capital can now access credit reports of SME clients automatically. SY Capital is among the few commercial factoring companies that have formally integrated with the PBOC Credit Reporting System.

Fintech-driven SME-based Loan Facilitation Gained Traction

Leveraging the Group’s core competencies in data-driven management and efficient customer acquisition, the Group’s banking partners are now able to lend directly and reach out to more SME customers. The Group renewed its credit facilities with both the China Construction Bank and the Ningbo Commercial Bank for RMB1 billion and RMB0.5 billion respectively, during the first half of 2020 to continue its SME-based loan facilitation initiatives. This is in support of the Chinese government’s call to strengthen collaboration among banks and fintech service providers to better serve SMEs during the Covid-19. The Group booked income from loan facilitation of RMB7.9 million in the first half of 2020, up 3 times from RMB2.6 million in the second half of 2019 when it began cooperating with the banks. Income is expected to accumulate when more credit is drawn and fees are generated in the second half of 2020.

Factoring Loans Disbursed Continued to Grow

During the first half of 2020, the Group disbursed RMB6.5 billion in loans to SME customers, a 33% year-on-year rise that was unhindered by the Covid-19. This resulted in interest income from factoring services of RMB226 million.

Enhancing Capital Turnover with Sales of Factoring Assets

In order to drive optimal funding, support increasing customer financing demand and capture more market share, the Group sold factoring assets to financial institution partners that are seeking for supply chain fixed income products. Driven by the low interest rate environment, relatively ample liquidity, and SY Capital’s proven track record, the Group is able to capitalize on strong demand and recorded a gain on the sale of factoring assets in the first half of the year of RMB75 million, a rise of 109% year-on-year. This is expected to become a recurring and efficient funding source that helps the Group enhance capital efficiency and rely less on its balance sheet to fuel growth.

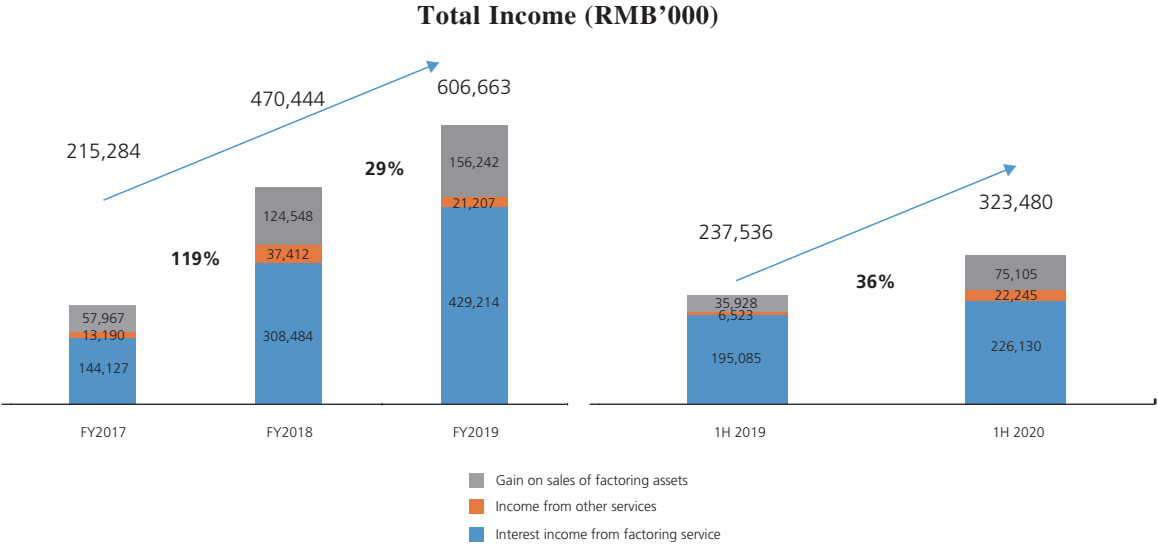
Diversification of Funding Channels

With a proven track record and strong fintech capabilities, the Group attracted both existing and new funding partners during the first half of 2020 as more financial institutions which explore SME supply chain financing partnered with SY Capital. To further beef up leverage, the Group has explored new funding channels, such as loan syndication, asset-backed bond issuance, credit fund partnership with asset management companies, and more overseas funding sources. The number of funding sources at 30 June 2020 increased to 34 when compared to 16 as at 30 June 2019.

FINANCIAL REVIEW

Income From Factoring And Other Services

The Group continued to see strong double-digit top and bottom-line growth in the first half of 2020. Income from factoring and other services reached RMB323 million during the period under review, an increase of 36% compared with that of the same period in 2019. Within this: a) interest income from factoring service reached RMB226 million, an increase of 16% year-on-year, b) income from other services, which included loan facilitation income as well as supply chain information technology management service income from partnering ABS issuers, reached RMB22 million, an increase of 241% year-on-year, c) gain on sales of factoring assets reached RMB75 million, an increase of 109% year-on-year. This demonstrates that the Group is benefiting from its fintech capabilities as it moves towards an asset-light model that is less affected by potential constraints imposed by balance sheet funding.



Other Gains

The Group booked other gains of RMB42 million in the first half of 2020 mainly due to the fair value gain on financial assets it entered into in relation to the equity tranche of AR-based ABS issuance of a blue-chip corporation that the Group assisted leveraging on its fintech capabilities to enhance ABS issuance efficiency and certainty.

Expenses

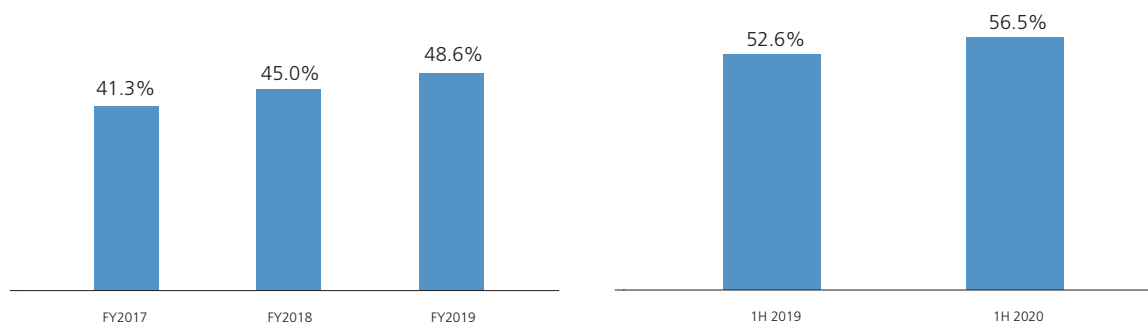
The Group increased its R&D capitalised and expensed spending by 20% during the period under review to strengthen its fintech solutions and the Easy Factoring SME-based platform. IT engineers rose over 60% year-on-year, accounting for 37% of the total staff, at the end of the first half of 2020. This compares with 34% at the end of June 2019. Total staff cost recognized in profit or loss in the first half of 2020 was RMB45 million, an increase of 58% year-on-year due to a rise in headcount as well as bonuses. Other operating expenses mainly comprise R&D costs, depreciation of right-of-use assets and amortisation of intangible assets. Other operating expenses recognised in profit or loss in the first half of 2020 was RMB43 million, an increase of 38% year-on-year due to the increase in R&D costs, depreciation of right-of-use assets and amortisation of intangible assets incurred as a result of business expansion.

The operational cost-to-income ratio for the first half of 2020 was 26.5%, excluding one-time expenses associated with the application for a Singapore digital wholesale banking license. This compares with 24.6% in the same period of 2019. The Group is still in high-growth stage with a need to recruit talents to further improve efficiency and customer experience. However, as a fintech player with established systems, the Group is able to drive scale and growth without significant expansion in headcounts. As such, cost-to-income is expected to decline over the coming years as a result of economics of scale.

Net Profit

Net profit in the first half of 2020 was RMB183 million, an increase of 46% year-on-year. Net profit margin was 56.5%, which was 3.9 percentage points higher than that of the same period last year, and 10.4 percentage points higher than that of the second half of 2019.

Net Profit Margin

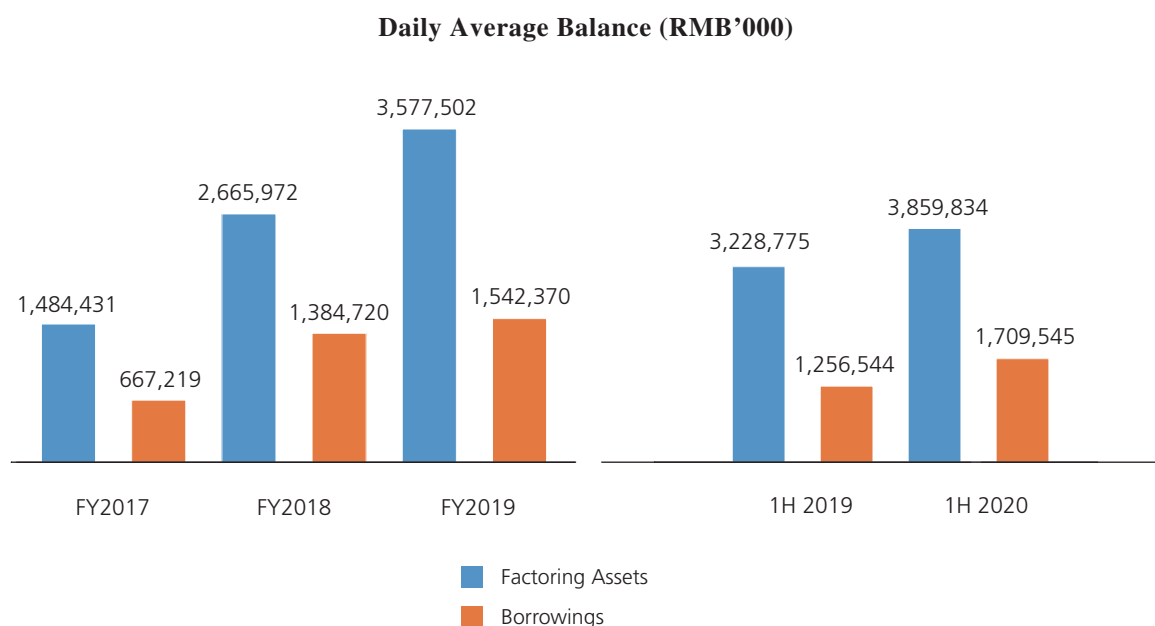


Factoring Assets At Fair Value through Other Comprehensive Income (“FVTOCI”)

Factoring assets at FVTOCI as of 30 June 2020 were RMB3,948 million, a 9% increase year-on-year. Daily average factoring assets over the first half of 2020 were RMB3,860 million, a 20% increase over the same period in 2019. Based on daily average factoring assets, interest yield on factoring assets in the first half of 2020 was 11.7%, which was 0.4 percentage points lower year-on-year, mainly due to (i) a lower mix of higher-yield financing upon goods delivery products in the infrastructure sector because of project delays during the first quarter and (ii) higher allocation to the lower-yield products in the medical sector to support medical suppliers during the pandemic.

Borrowings

Borrowings as of 30 June 2020 was RMB1,882 million, a 13% increase year-on-year. Daily average borrowings over the first half of 2020 was RMB1,710 million, a 36% increase year-on-year. The increase in finance cost of RMB19 million year-on-year was due to an increase in borrowings to finance the Group's business expansions.



BUSINESS OUTLOOK AND PROSPECTS

Given the current macro uncertainty and continued pockets of resurgence of the Covid-19, the Chinese government will continue to push for faster adoption of digitization in supply chain financing to better facilitate financial inclusivity across SMEs. As a fintech company, SY Capital will continue to leverage its deep industry knowledge and data-driven risk management to enhance liquidity in the economy. SY Capital's primary focus remains on the infrastructure, energy and medical sectors, which are pillars of China's domestic economy. Within SY Capital's top 10 blue-chip core enterprise partners, the Group has only addressed less than 1% of the potential suppliers, so there remains a huge potential within China. In addition, the Group is exploring new ways to collaborate with its core enterprise partners and SME customers by providing SaaS for accounts receivable management, invoice authentication, and procurement management solutions to create a data-driven ecosystem that makes supply chain financing more flexible and cost-efficient. The Group is also exploring new potential sectors with long payment cycles and fragmented suppliers.

As companies around the world continue to shift towards a more geographically diversified supply chain strategy, supply chain financing companies need to address these new opportunities. With a vision of becoming a leading supply chain fintech platform in Asia, the Group has implemented plans to expand to South East Asia (“SEA”). The Group is in the application process for a digital wholesale banking license in Singapore, and has partnered with a reputable consortium of members, including Phillip Capital and Advance.AI. As a leading securities and financial services firm with a long history in Singapore and SEA, Phillip Capital brings deep regional knowledge and a large SME client-base across the region, while Advance.AI is a leading fintech company backed by Temasek’s Pavilion Capital that offers enterprise electronic know your customer (eKYC), anti-fraud and financing solutions.

After the publication of the Notice 205, the Group has started to see more open communications with corporate-backed factoring companies, and has already entered a re-factoring collaboration with a large multinational corporate-backed factoring partner in the first half of 2020. The Group expects that the Notice 205 and additional legislation to come will bring more support to China’s third-party commercial factoring companies.

Looking forward, the commercial factoring industry is expected to grow steadily in light of favorable policies and increasing funding demand from SMEs. The Group will continue to improve its funding leverage in order to drive future growth, but will do so cautiously as it continues to enhance its data-driven risk management processes. SY Capital’s “one core, two wings” strategy was formulated to help the Group achieve sustainable growth. The “core” represents “supply chain financing platform”, where the Group will continue to partner with more core enterprises and explore new potential funding avenues to better serve more SMEs with customized financing solutions; while the “two wings” represents “fintech innovation and “overseas expansion” to drive the next phase of growth. Over the long term, SY Capital aims to build a highly efficient supply chain financing ecosystem to drive growth that is sustainable and beneficial to all its stakeholders.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND GEARING

During the six months ended 30 June 2020, the Group’s main source of funds was the cash generated from its daily operation, and new borrowings. As at 30 June 2020, the Group had bank balances and cash of RMB211.4 million (31 December 2019: RMB377.3 million), of which 98.7% (31 December 2019: 99.3%) and 0.8% (31 December 2019: 0.5%) were denominated in RMB and HK dollars respectively. Net cash from operating activities was RMB143.9 million in the first half of 2020 (for the six months ended 30 June 2019: net cash used in operating activities was RMB679.7 million), an increase of RMB823.6 million year-on-year was mainly due to the decrease in net cash used in factoring assets at FVTOCI from RMB811.9 million for the six months ended 30 June 2019 to RMB110.3 million for the six months ended 2020.

As at 30 June 2020, the Group had interest-bearing borrowings, bank overdraft and loans from related parties which amounted to RMB1,882.4 million (31 December 2019: RMB1,885.2 million). Its gearing ratio, expressed as total liabilities over owner’s equity was 0.83 as at 30 June 2020 (31 December 2019: 0.85).

USE OF PROCEEDS

The Placing

On 28 June 2018, the Company, Wisdom Cosmos Limited (“**Wisdom Cosmos**”), the immediate holding company of the Company, Oversea-Chinese Banking Corporation Limited (“**OCBC**”) and Macquarie Capital Limited (“**Macquarie**”) (OCBC and Macquarie collectively referred to as the “**Joint Placing Agents**”) entered into a placing agreement pursuant to which the Wisdom Cosmos agreed to place, through the Joint Placing Agents on a best effort basis, a maximum of 148,000,000 existing ordinary placing shares at the placing price of HK\$6.00 per placing share (the “**Placing**”).

On the same date, Wisdom Cosmos and the Company entered into a subscription agreement under which Wisdom Cosmos conditionally agreed to subscribe for, and the Company conditionally agreed to issue, the ordinary subscription shares (the “**Subscription**”).

The Placing and the Subscription were completed on 4 July and 11 July 2018 respectively. An aggregate of 138,484,000 subscription shares (equals to the number of the placing shares successfully placed under the Placing) were subscribed by Wisdom Cosmos at the subscription price of HK\$6.00 for each subscription share. The subscription shares represent approximately 15.76% of the issued share capital of the Company as enlarged by the allotment and issue of the subscription shares. The Company received total net proceeds of approximately HK\$819.5 million (equivalent to approximately RMB698.0 million) from the Placing and the Subscription.

The placing price of HK\$6.00 per placing share represents: (i) a discount of approximately 16.6% to the closing price of HK\$7.19 per Share as quoted on the Stock Exchange on 28 June 2018; and (ii) a discount of approximately 17.6% to the average of the closing prices of approximately HK\$7.28 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days prior to 28 June 2018.

Use of proceeds from the Placing

During the year ended 31 December 2018, the year ended 31 December 2019 and six months ended 30 June 2020, details of the use of proceeds of the Placing were as follows:

Use of proceeds	Net proceeds raised (Approximately HK\$ million)	Actual use of net proceeds during the year ended 31 December 2018 (Approximately HK\$ million)	Actual use of net proceeds during the year ended 31 December 2019 (Approximately HK\$ million)	Actual use of net proceeds during the six months ended 30 June 2020 (Approximately HK\$ million)	Intended use and expected timeline of the remaining amount of net proceeds
General working capital of the Group for expanding the factoring operations	757.0	757.0	-	-	The amount of the net proceeds for the general working capital of the Group for expanding the factoring operations had been fully utilised.
Developing the online factoring platform and IT system of the Group	62.5	18.5	27.4	12.3	The remaining unutilised amount of approximately HK\$4.3 million will be used for developing the online factoring platform and IT system of the Group and is expected to be fully utilised by 31 December 2020.

CAPITAL COMMITMENTS

As at 30 June 2020, the capital commitments of the Group comprised of investment in an associate of approximately RMB3.2 million, purchase of intangible assets of approximately RMB0.5 million and purchase of equipment of approximately RMB0.2 million (31 December 2019: purchase of intangible assets of approximately RMB0.6 million).

CONTINGENT LIABILITIES

Save as disclosed in note 16 of the “Notes to the condensed consolidated financial statements”, the Group did not have any other guarantees or other material contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2020, the Group had pledged bank deposits of RMB175.6 million, security deposits of RMB26.4 million, pledged structured deposit of RMB9.1 million, and certain factoring assets with an aggregate carrying amount of RMB734.2 million to banks and third parties for facilities, loan facilitation platform in partnership with a bank, loans from an associate and derivative financial instruments (31 December 2019: pledged bank deposits of RMB86.4 million, security deposits of RMB9.8 million, pledged structured deposit of RMB9.0 million, and certain factoring assets with an aggregate carrying amount of RMB462.5 million to banks and third parties for facilities, loan facilitation platform in partnership with a bank and derivative financial instruments).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

In April 2020, the Group de-registered its investment in Sheng Nuo Factoring Limited* (“SNF”), a subsidiary of the Company. There were no profit or loss and cash flows of SNF recognised on the condensed consolidated financial statements for the six months ended 30 June 2020.

In April 2020, the Group disposed of its 20% investment in Shenzhen Sheng Ye Non-Financing Guarantee Limited*, an associate of the Group, to an independent third party at cash consideration of RMB6,203,000, which resulted in the Group recognising a loss of RMB48,000 in profit or loss.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

In April 2020, the Group and Wuxi Tonghui Investment Co., Ltd* (“Wuxi Tonghui”, a subsidiary wholly owned by Wuxi Communications Industry Group Co., Ltd*, “Wuxi Communications”) injected additional RMB200 million capital to Wuxi Guojin Factoring Limited* (“Wuxi Guojin”) in proportion to the shareholding interest of Wuxi Tonghui and the Group in Wuxi Guojin in which the Group contributed capital injection in amount of RMB80 million. To jointly explore the supply chain finance opportunities in infrastructure and communications industry, the Group and Wuxi Communications (our regional leading core enterprise partner engaged in development and operation of infrastructure and transportation projects) established Wuxi Guojin in 2018.

As part of the Group’s strategy investment to partner with more core enterprises, Wuxi Guojin has recorded significant growth in both operational and financial performance since its establishment under continuous support from shareholders and is one of the leading commercial factoring companies with the largest amount of paid up capital in the region. By the end of the first half of 2020, Wuxi Guojin deployed RMB3.75 billion of total loans. The unaudited profit after tax of Wuxi Guojin reached RMB11.2 million during the period, an increase of 220.0% compared with that in the same period in 2019.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group aims to become the most reliable data-driven supply chain fintech platform in Asia under “one core, two wings” strategy. To achieve the goal, the Group will further develop the capacities and functions of supply chain financing platform. Meanwhile, the Group will continue its investment in R&D to improve fintech innovation as well as seeking business opportunities in SEA under the overseas expansion plan.

FOREIGN EXCHANGE RISKS

The Group’s exposure to foreign currency risk related primarily to bank balances, pledged structured deposit, pledged bank deposits, loan receivable, other receivables, borrowings, bank overdraft and lease liabilities that are denominated in HK\$, US\$, GBP£, S\$ and EUR€. The Group entered into cross currency swap contracts and foreign currency forward contracts during the period to manage its foreign currency risk exposures arising from certain variable-rate bank borrowings denominated in HK\$, US\$ and EUR€. The management manages and monitors this exposure to ensure appropriate measures are implemented on a timely and effective manner.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group had a total of 233 staff (As at 31 December 2019: 199 staff). Total staff costs (including Directors' emoluments) were approximately RMB55.3 million (including share option benefits RMB0.3 million) for the six months ended 30 June 2020 (for the six months ended 30 June 2019: RMB36.8 million (including share option benefits RMB5.8 million)). Remuneration is determined by reference to the market conditions and the performance, qualifications and experience of individual employees. Year-end bonuses based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to a statutory mandatory provident fund scheme and social insurance together with housing provident funds for its employees in Hong Kong and the People's Republic of China ("PRC"), respectively.

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible directors, employees and contractors of the Group, who contribute to the success of the Group's operations.

In Hong Kong, the Group participates in a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance (Cap 485 of the Laws of Hong Kong). The assets of the MPF Scheme are held separately from those of the Group and administered by an independent trustee. Under the MPF Scheme, the Group and its employees are each required to make a contribution to the MPF Scheme at 5% of the employees' relevant monthly income subject to a cap, which is currently set at HK\$1,500.

PRC employees are covered by the mandatory social security schemes operated by the PRC government. The Group is required by the PRC laws to contribute a certain percentage of payroll cost to the retirement benefits scheme to fund the benefits.

RECENT DEVELOPMENT OF REGULATORY FRAMEWORK

Since 2019, financial regulatory institutions in China has strengthened their governance on local commercial factoring companies, further regulating and promoting the compliance development of the factoring industry and providing additional policy support for commercial factoring companies that practice market-oriented operation and focus on supporting SMEs and microenterprises. In October 2019, CBIRC issued Notice 205, the first official regulatory paper on factoring that sets industry regulations and gave support to third-party commercial factoring companies. One of the core rules of Notice 205 restricts AR factoring from a single debtor and related parties to less than 50% and 40% of total loan book, respectively. This is favorable to independent third-party commercial factoring players such as SY Capital, and will allow the Group to explore new collaborations with corporate-backed factoring companies.

On 28 May 2020, the Civil Code was passed at the third session of the 13th National People's Congress. The inclusion of a Factoring Contract Chapter in the Civil Code of the PRC, which will be enforced on 1 January 2021, not only made China the first country in the world to clearly define factoring contracts as typical independent contract, but also affirmed the support and importance of the factoring industry from the Chinese government. Given the industry pain points, the specific provisions of the Civil Code have established rules to clear major obstacles for the development of the industry. These provisions are of great significance in expanding the potential of the factoring market and preventing industry risks, and will play a highly positive role in promoting and standardizing the development of China's factoring industry.

The Directors confirmed that the Group would be able to comply with the relevant requirements above, as well as to gain more market opportunities with the support from favorable policies.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2020, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to provisions set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

Interest in the Company

Name of Director	Capacity/nature of interest	Number and class of securities interested	Percentage of shareholding
Mr. Tung Chi Fung (“ Mr. Tung ”) (Note 1)	Beneficiary of a trust and settlor of a discretionary trust	555,000,000 (L) (Note 2)	63.00%
Mr. Chen Jen-Tse	Share option	3,000,000 (Note 3)	0.34%
Mr. Hung Ka Hai Clement	Share option	200,000 (Note 3)	0.02%
Mr. Loo Yau Soon	Share option	200,000 (Note 3)	0.02%
Mr. Tsoon Wai Mun, Benjamin	Share option	200,000 (Note 3)	0.02%

Notes:

1. Wisdom Cosmos, a company incorporated in the British Virgin Islands (“BVI”), is the beneficial owner of 555,000,000 shares of the Company, representing approximately 63.00% shareholding interests in the Company. The entire issued share capital of Wisdom Cosmos is owned by Eander Limited (“Eander”), a company incorporated in the BVI, which is in turn wholly owned by TMF (Cayman) Ltd (“TMF Trust”), trustee of the Pak Jeff Trust (“PJ Trust”), an irrevocable reserved power trust established by Mr. Tung. Mr. Tung and his family members are the beneficiaries of the PJ Trust. Under the SFO, Mr. Tung, TMF Trust and Eander are deemed to be interested in all the shares of the Company registered in the name of Wisdom Cosmos.
2. The letter “L” denotes long position of the shares of the Company.
3. This refers to the number of underlying Shares covered by its share option scheme.

Save as disclosed herein, as at 30 June 2020, none of the Directors or chief executive of the Company or their associates (as defined in the Listing Rules) had any interests and short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them has taken or deemed to have taken under the provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein; or which were required, pursuant to provisions set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2020, so far as is known to the Directors, the following persons, not being Directors or chief executive of the Company had, or were deemed to have, interests or 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; or who is directly or indirectly, to be interested in 5% or more of issued share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/nature of interest	Number and class of securities interested (Note 1)	Percentage of shareholding
TMF Trust (Note 2)	Trustee	555,000,000 (L)	63.00%
Eander (Note 2)	Interest in a controlled corporation	555,000,000 (L)	63.00%
Wisdom Cosmos (Note 2)	Beneficial owner	555,000,000 (L)	63.00%

Notes:

1. The letter "L" denotes long position of the shares of the Company.
2. Wisdom Cosmos, a company incorporated in the BVI, is the beneficial owner of 555,000,000 shares of the Company, representing approximately 63.00% shareholding interests in the Company. The entire issued share capital of Wisdom Cosmos is owned by Eander, a company incorporated in the BVI, which is in turn wholly owned by TMF Trust, trustee of the PJ Trust, an irrevocable reserved power trust established by Mr. Tung. Mr. Tung and his family members are the beneficiaries of the PJ Trust. Under the SFO, Mr. Tung, TMF Trust and Eander are deemed to be interested in all the shares of the Company registered in the name of Wisdom Cosmos.

Save as disclosed above, as at 30 June 2020, the Directors are not aware of any other person, other than the Directors and the chief executive of the Company who had, or was deemed to have, interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who is directly or indirectly, to be interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or options in respect of such share capital.

SHARE OPTION SCHEME

During the six months ended 30 June 2020, i) 12,237,000 Granted Options were outstanding under the Share Option Scheme; ii) 696,000 Granted Options were exercised; iii) 3,130,000 Granted Options were lapsed; and iv) no Granted Options were cancelled.

Save for the grants of share options on 11 September 2017 and 14 November 2018 as disclosed in the announcements of the Company on the same date respectively, no new share options have been granted nor any existing share option schemes have been adopted by the Company as at 30 June 2020.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST IN COMPETING INTERESTS OR CONFLICT OF INTEREST

For the six months ended 30 June 2020, the Directors are not aware of any business or interest of the Directors, the substantial shareholders of the Company and their respective associates (as defined in the Listing Rules) that competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interests which any such person has or may have with the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with the provisions set out in Appendix 10 of the Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions adopted by the Company during the period from the Listing Date to the date of this announcement.

CORPORATE GOVERNANCE

The Directors are committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Shareholders. To accomplish this, the Group will continue to comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and the associated Listing Rules (the "CG Code").

The shares of the Company were successfully listed on GEM on 6 July 2017 and were transferred to the Main Board on 24 October 2019. To the best knowledge of the Board, the Company had complied with the code provisions in the CG Code during the period from the Listing Date to 30 June 2020.

AUDIT COMMITTEE

The Company established the Audit Committee on 19 June 2017 with written terms of reference in compliance with Rules 3.21 to 3.24 of the Listing Rules and paragraph C.3 of the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and removal of the external auditors; review the financial statements and provide material advice in respect of financial reporting; and oversee the internal control and risk management procedures of the Company. The Audit Committee currently consists of three members, namely Mr. Hung Ka Hai Clement, Mr. Tsoon Wai Mun, Benjamin, and Mr. Loo Yau Soon. The Chairman of the Audit Committee is Mr. Hung Ka Hai Clement.

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020 and the interim report have been reviewed by the Audit Committee. The Board is of the opinion that such financial information has been prepared in compliance with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

The Company's independent auditor, Deloitte Touche Tohmatsu, has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

EVENT AFTER THE REPORTING PERIOD

On 3 July 2020, SY Factoring Limited (盛業商業保理有限公司), an indirect wholly-owned subsidiary of the Company, entered into the second supplemental guarantee agreement with Wuxi Communications, Wuxi Tonghui and Wuxi Guojin to amend certain terms of the previous guarantee agreements. Please refer to the announcement of the Company dated 3 July 2020 for details.

On 15 July 2020, the Company granted 17,400,000 share options to all directors and eligible employees of the Group to subscribe for the ordinary shares of the Company with an exercise price of HK\$6.68 per share and for a validity period of 5 years. Please refer to the announcement of the Company dated 15 July 2020 for details.

On 30 July 2020, the Company announced that the board lot size of the ordinary shares in the Company (the "Shares") for trading on the Stock Exchange will be changed from 2,000 Shares to 500 Shares with effect from 9:00 a.m. on Friday, 21 August 2020. Please refer to the announcement of the Company dated 30 July 2020 for details.

INTERIM RESULTS

The board of Directors of the Company (the “**Board**”) announces the unaudited interim consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2020 together with comparative figures for the corresponding period in 2019. The financial information has been approved by the Board.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	3		
Interest income from factoring service		226,130	195,085
Income from other services		<u>22,245</u>	<u>6,523</u>
Total revenue		248,375	201,608
Gain on sales of factoring assets	4	<u>75,105</u>	<u>35,928</u>
Income from factoring and other services		<u>323,480</u>	<u>237,536</u>
Other income	5(a)	12,726	35,616
Other gains and losses	5(b)	41,889	106
Impairment losses under expected credit loss (“ECL”) model, net of reversal	14	(16,806)	(12,023)
Staff costs	8	(44,562)	(28,199)
Other operating expenses		(43,392)	(31,364)
Donation		(245)	–
Share of profit of a joint venture		–	1,537
Share of profit of associates		4,732	2,167
Finance costs	6	<u>(64,317)</u>	<u>(45,226)</u>
Profit before taxation		213,505	160,150
Taxation	7	<u>(30,846)</u>	<u>(35,255)</u>
Profit for the period	8	<u>182,659</u>	<u>124,895</u>

		Six months ended 30 June	
	Note	2020	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Other comprehensive income (“OCI”):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gain, net of ECL, after reclassification of derecognition on:			
– factoring assets at fair value through OCI (“FVTOCI”)		4,258	1,471
Income tax relating to items that may be reclassified subsequently		(1,979)	(369)
Share of OCI of a joint venture, net of related income tax		–	32
Share of other comprehensive expense of associates, net of related income tax		(930)	(526)
		<u>1,349</u>	<u>608</u>
OCI for the period, net of income tax			
		<u>1,349</u>	<u>608</u>
Total comprehensive income for the period		<u>184,008</u>	<u>125,503</u>
Profit for the period attributable to:			
– Owners of the Company		179,210	118,756
– Non-controlling interests		3,449	6,139
		<u>182,659</u>	<u>124,895</u>
Total comprehensive income for the period attributable to:			
– Owners of the Company		180,920	119,443
– Non-controlling interests		3,088	6,060
		<u>184,008</u>	<u>125,503</u>
Earnings per share	10		
– Basic (RMB cents)		20	14
– Diluted (RMB cents)		20	13

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30.6.2020	31.12.2019
		RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current assets			
Property and equipment		5,961	5,840
Intangible assets		19,504	19,960
Right-of-use assets		24,296	22,147
Investments in associates	11	140,748	67,580
Prepayments for non-current assets		1,269	985
Deferred tax assets		12,783	11,319
Refundable rental deposits		3,182	2,788
		207,743	130,619
Current assets			
Factoring assets at FVTOCI	12	3,947,696	3,837,348
Other financial assets at fair value through profit or loss ("FVTPL")	13	48,268	4,497
Derivative financial instruments		1,435	751
Loan receivable		3,812	9,066
Amounts due from a related party		241	–
Receivables from guarantee customers		13,845	7,700
Trade receivables		3,717	403
Other receivables, prepayments and others		31,512	16,113
Pledged structured deposit		9,134	9,000
Pledged bank deposits		175,552	86,350
Bank balances and cash		211,448	377,327
		4,446,660	4,348,555

	Notes	30.6.2020 RMB'000 (Unaudited)	31.12.2019 RMB'000 (Audited)
Current liabilities			
Loans from an associate		117,405	–
Dividend payable		288	–
Other payables and accrued charges	15	86,424	73,740
Derivative financial instruments		585	2,359
Contract liabilities		1,311	672
Income tax payable		33,653	29,682
Liabilities arising from guarantee contracts	16	30,073	12,050
Borrowings	17(a)	1,748,456	1,867,299
Bank overdraft	17(b)	16,505	17,864
Lease liabilities		9,887	6,613
		<u>2,044,587</u>	<u>2,010,279</u>
Net current assets		<u>2,402,073</u>	<u>2,338,276</u>
Non-current liabilities			
Lease liabilities		14,991	15,448
Deferred tax liabilities		52,498	35,387
		<u>67,489</u>	<u>50,835</u>
Net assets		<u>2,542,327</u>	<u>2,418,060</u>
Capital and reserves			
Share capital	18	7,642	7,636
Reserves		2,422,520	2,281,363
Equity attributable to owners of the Company		2,430,162	2,288,999
Non-controlling interests		112,165	129,061
Total equity		<u>2,542,327</u>	<u>2,418,060</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company								Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	FVTOCI reserves RMB'000	Share-based payments reserves RMB'000	Statutory reserves RMB'000	Retained profits RMB'000	Total RMB'000		
At 1 January 2020 (unaudited)	7,636	1,592,105	1,547	2,125	17,659	80,002	587,925	2,288,999	129,061	2,418,060
Profit for the period	-	-	-	-	-	-	179,210	179,210	3,449	182,659
Other comprehensive income (expense) for the period	-	-	-	1,710	-	-	-	1,710	(361)	1,349
Total comprehensive income for the period	-	-	-	1,710	-	-	179,210	180,920	3,088	184,008
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(19,984)	(19,984)
Recognition of equity-settled share-based payments	-	-	-	-	251	-	-	251	-	251
Dividends recognised as distribution (note 9)	-	(42,652)	-	-	-	-	-	(42,652)	-	(42,652)
Exercise of share options	6	3,419	-	-	(781)	-	-	2,644	-	2,644
At 30 June 2020 (unaudited)	<u>7,642</u>	<u>1,552,872</u>	<u>1,547</u>	<u>3,835</u>	<u>17,129</u>	<u>80,002</u>	<u>767,135</u>	<u>2,430,162</u>	<u>112,165</u>	<u>2,542,327</u>
At 1 January 2019 (audited)	7,623	1,615,787	1,547	(1,680)	9,320	44,437	343,147	2,020,181	95,881	2,116,062
Profit for the period	-	-	-	-	-	-	118,756	118,756	6,139	124,895
Other comprehensive income (expense) for the period	-	-	-	687	-	-	-	687	(79)	608
Total comprehensive income for the period	-	-	-	687	-	-	118,756	119,443	6,060	125,503
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	17,150	17,150
Recognition of equity-settled share-based payments	-	-	-	-	5,801	-	-	5,801	-	5,801
Dividends recognised as distribution (note 9)	-	(30,905)	-	-	-	-	-	(30,905)	-	(30,905)
Exercise of share options	-	195	-	-	(44)	-	-	151	-	151
At 30 June 2019 (unaudited)	<u>7,623</u>	<u>1,585,077</u>	<u>1,547</u>	<u>(993)</u>	<u>15,077</u>	<u>44,437</u>	<u>461,903</u>	<u>2,114,671</u>	<u>119,091</u>	<u>2,233,762</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2020*

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	143,944	(679,725)
INVESTING ACTIVITIES		
Proceeds on disposal of interest in an associate	5,603	1,000
Proceeds from disposal of other financial assets at FVTPL	4,811	–
Dividend received from an associate	4,383	–
Withdrawal of pledged bank deposits	2,774	–
Refundable rental deposits received	2,295	–
Bank interest income received	1,368	1,401
Repayment from a loan receivable	1,325	–
Interest received from a loan receivable	410	719
Proceeds from disposal of equipment	1	–
Interest received from loans to associates	–	64
Repayments from loans to associates	–	7,350
Loans to associates	–	(7,350)
Payments for right-of-use assets	–	(285)
Payment for settlement of derivative financial instruments	(115)	–
Advances to related parties	(241)	(1,295)
Payments for refundable rental deposits	(614)	(1,196)
Purchase of other financial assets at FVTPL	(1,100)	(4,610)
Purchase of property and equipment	(1,264)	(2,332)
Payment for development costs and purchase of other intangible assets	(2,240)	(6,064)
Security deposits paid for derivative financial instruments	(8,160)	–
Net cash outflow on disposal of a subsidiary	(19,984)	–
Investment in an associate	(80,000)	–
Placement of pledged bank deposits	(91,976)	(43,098)
NET CASH USED IN INVESTING ACTIVITIES	(182,724)	(55,696)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
FINANCING ACTIVITIES		
New borrowings raised	765,741	660,679
Loans raised from related parties	214,922	233,824
Exercise of equity-settled share options	2,644	151
Capital contribution from non-controlling shareholders of the subsidiaries	–	17,150
Interest paid for lease liabilities	(708)	(315)
Interest paid for loans from related parties	(3,132)	(894)
Repayment of lease liabilities	(3,961)	(3,525)
Security deposits paid for borrowings	(8,427)	–
Dividends paid	(42,364)	(30,905)
Interest paid for borrowings and bank overdraft	(50,133)	(31,191)
Repayment of loans from related parties	(98,575)	(75,381)
Repayment of borrowings	(893,870)	(108,665)
	<u>(117,863)</u>	<u>660,928</u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES		
	<u>(117,863)</u>	<u>660,928</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(156,643)	(74,493)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	359,463	226,069
Effect of foreign exchange rate changes	(7,877)	(208)
	<u>(7,877)</u>	<u>(208)</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by	<u>194,943</u>	<u>151,368</u>
Bank balances and cash	211,448	168,961
Bank overdraft	(16,505)	(17,593)
	<u>(16,505)</u>	<u>(17,593)</u>
	<u>194,943</u>	<u>151,368</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company completed transfer of listing of its shares from GEM to the Main Board of the Stock Exchange with effective from 24 October 2019.

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. As such, the financial positions and performance of the Group were affected in different aspects, including increase in ECL allowance on certain financial assets and other items and rent concessions from a lessor.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as appropriate.

Other than additional accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and method of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 “Covid-19-Related Rent Concessions”.

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

2.2 Impacts and changes in accounting policies of early application on Amendment to HKFRS 16 “Covid-19-Related Rent Concessions”

2.2.1 Key changes in accounting policies

Leases

Covid-19-related rent concessions

Rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 “Leases” if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

2.2.2 Transition and summary of effects

The Group has early applied the amendment in the current interim period to all rent concessions in the period (all of which meet the conditions in the amendment). The application has no impact to the opening retained profits at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of RMB224,000 in the profit or loss for the current interim period.

3. REVENUE AND SEGMENT INFORMATION

Revenue for the reporting period represents income received and receivable mainly from the provision of factoring and relevant services in the PRC.

The chief operating decision maker (“CODM”), being the executive directors of the Company, have determined that no segment information is presented other than entity wide disclosures throughout the reporting period, as the Group is principally engaged in providing factoring and relevant services mainly in the PRC, and the CODM, reviews the condensed consolidated financial position and results of the Group as a whole for the purposes of allocating resources and assessing performance of the Group.

The Company is an investment holding company and the principal place of the Group’s operation is mainly in the PRC. Most of the Group’s revenue and major non-current assets are principally derived from or located in the PRC.

(i) An analysis of the Group’s revenue for the reporting period is as follows:

	Six months ended 30 June	
	2020	2019
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Interest income from factoring service	226,130	195,085
Income from other services:		
– Information technology service	12,992	991
– Guarantee service	5,500	3,489
– Consulting service	–	504
– Other services	3,753	1,539
	<u>22,245</u>	<u>6,523</u>
	<u>248,375</u>	<u>201,608</u>

(ii) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2020	2019
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Timing of revenue recognition		
A point in time	8,850	504
Over time	7,895	2,530
	<u>16,745</u>	<u>3,034</u>
Total	<u>16,745</u>	<u>3,034</u>

4. SALES OF FACTORING ASSETS

For the six months ended 30 June 2020 and 2019, the Group sold part of factoring assets to certain financial institutions mainly in the PRC. Sales of factoring assets gave rise to full derecognition of the factoring assets pursuant to the terms of sale agreements signed between the Group and relevant financial institutions.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on sales of factoring assets	<u>75,105</u>	<u>35,928</u>

5. OTHER INCOME/OTHER GAINS AND LOSSES

(a) Other income

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government subsidies	10,421	33,395
Bank interest income	1,368	1,401
Interest income from a loan receivable	923	745
Interest income from loans to associates	–	64
Others	<u>14</u>	<u>11</u>
	<u>12,726</u>	<u>35,616</u>

(b) Other gains and losses

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain from changes in fair value of other financial assets at FVTPL	47,482	90
Net gain arising from changes in fair value of derivative financial instruments	2,343	–
Gain from termination of a lease contract	26	–
Loss on disposal of equipment	(2)	(2)
(Loss) gain on disposal of investment in an associate	(48)	230
Exchange loss, net	(7,743)	(208)
Others	<u>(169)</u>	<u>(4)</u>
	<u>41,889</u>	<u>106</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on borrowings and bank overdraft	59,419	41,146
Interest on loans from related parties	4,190	3,765
Interest on lease liabilities	708	315
	<u>64,317</u>	<u>45,226</u>

7. TAXATION

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
– PRC Enterprise Income Tax (“EIT”)	14,795	21,127
– Withholding tax levied on interest income of Hong Kong subsidiaries	2,383	2,577
– Withholding tax levied on dividend declared of a PRC subsidiary	–	1,625
	<u>17,178</u>	<u>25,329</u>
Deferred tax	13,668	9,926
	<u>30,846</u>	<u>35,255</u>

8. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Directors' emoluments	2,380	2,730
Other staff costs		
– Salaries, allowances and other staff benefits, including share option expenses	52,382	31,958
– Staff's retirement benefit scheme contributions	519	2,136
Total staff costs	55,281	36,824
Less: amount capitalised in development costs	(1,750)	(5,386)
Less: staff costs recognised as research and development costs in other operating expenses	(8,969)	(3,239)
Staff costs recognised in profit or loss	44,562	28,199
Research and development costs recognised as an expense (included in other operating expenses)	9,138	3,340
Total depreciation of property and equipment	1,001	805
Less: amount capitalised in development costs	(32)	(101)
Depreciation of property and equipment recognised in profit or loss	969	704
Depreciation of right-of-use assets	4,827	3,634
Amortisation of intangible assets	2,583	1,691
Covid-19-related rent concessions	(224)	–

9. DIVIDENDS

During the current interim period, a final dividend of HK5.3 cents per share in respect of the year ended 31 December 2019 (30 June 2019: HK4 cents per share in respect of the year ended 31 December 2018) was declared to the owners of the Company.

The aggregate amount of the final dividend declared amounted to Hong Kong Dollars ("HK\$") 46,694,000 (equivalent to RMB42,652,000) (six months ended 30 June 2019: HK\$35,154,000 (equivalent to RMB30,905,000)). The aggregate amount of the final dividend paid in the interim period amounted to HK\$46,378,000 (equivalent to RMB42,364,000) (six months ended 30 June 2019: HK\$35,154,000 (equivalent to RMB30,905,000)).

The directors of the Company do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2020.

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>179,210</u>	<u>118,756</u>
	Six months ended 30 June	
	2020	2019
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>880,799</u>	878,856
Effect of dilutive potential ordinary shares:		
Share options	<u>2,613</u>	<u>4,001</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>883,412</u>	<u>882,857</u>

11. INVESTMENTS IN ASSOCIATES

Details of the Group's investments in associates are as follows:

	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Cost of investments in associates, unlisted	<u>130,000</u>	56,000
Share of post-acquisition profit, net of dividend received	<u>9,420</u>	9,322
Share of post-acquisition OCI	<u>1,328</u>	<u>2,258</u>
	<u>140,748</u>	<u>67,580</u>

12. FACTORING ASSETS AT FVTOCI

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Factoring assets at FVTOCI	<u>3,947,696</u>	<u>3,837,348</u>
Analysed for reporting purposes as:		
Current assets	<u>3,947,696</u>	<u>3,837,348</u>

As at 30 June 2020, the effective interest rates of the factoring assets at FVTOCI range mainly from 6.00% to 17.5% (31 December 2019: 5.90% to 18.00%) per annum.

13. OTHER FINANCIAL ASSETS AT FVTPL

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Equity tranche	44,916	–
Trust fund	<u>3,352</u>	<u>4,497</u>
	<u>48,268</u>	<u>4,497</u>

14. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Impairment losses recognised on:		
– Financial guarantee contracts	7,998	2,026
– Loan receivable	4,442	–
– Factoring assets at FVTOCI	4,188	9,872
– Receivables from guarantee contracts	178	–
– Security deposits for guarantee contracts	<u>–</u>	<u>125</u>
	<u>16,806</u>	<u>12,023</u>

15. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2020	31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Other tax payables	38,325	27,197
Accrued charges	32,526	40,661
Settlement payables to factoring customers	15,389	4,994
Advance receipt from disposal of investment in an associate	–	600
Other payables	184	288
	<u>86,424</u>	<u>73,740</u>

16. LIABILITIES ARISING FROM GUARANTEE CONTRACTS

	30 June 2020			31 December 2019		
	Premium less accumulated amortisation RMB'000 (Unaudited)	ECL provision RMB'000 (Unaudited)	Carrying amount RMB'000 (Unaudited)	Premium less accumulated amortisation RMB'000 (Audited)	ECL provision RMB'000 (Audited)	Carrying amount RMB'000 (Audited)
Loan guarantee contracts						
in relation to:						
– third parties	14,869	17,640	23,657	8,299	6,276	8,914
– an associate	6,414	1,022	6,416	2,070	1,069	2,247
Guarantee contracts to suppliers						
in relation to:						
– non-payment of payables	–	–	–	889	653	889
	<u>21,283</u>	<u>18,662</u>	<u>30,073</u>	<u>11,258</u>	<u>7,998</u>	<u>12,050</u>

At the end of the reporting period, the directors of the Company has assessed the past due status of the debts under guarantee, the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate.

The following is the maximum amount the Group has guaranteed under the contracts and details of liabilities arising from guarantee contracts.

	30 June 2020	31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Loan guarantee contracts in relation to		
– third parties	918,961	456,788
– an associate	340,800	270,000
Guarantee contracts to suppliers in relation to performance obligations	–	46,608
	<u>1,259,761</u>	<u>773,396</u>

17. BORROWINGS/BANK OVERDRAFT

(a) Borrowings

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Bank borrowings	740,772	469,495
Entrusted loans	323,710	445,376
Bills discounted	14,686	31,107
Other loans	669,288	921,321
	<u>1,748,456</u>	<u>1,867,299</u>
Secured	903,870	560,633
Unsecured	844,586	1,306,666
	<u>1,748,456</u>	<u>1,867,299</u>

(b) Bank overdraft

As at 30 June 2020, the bank overdraft amounted to HK\$18,070,000 (equivalent to RMB16,505,000) (31 December 2019: HK\$19,943,000 (equivalent to RMB17,864,000)), which is repayable on demand, carrying interest rate per annum at the rate of the benchmark rate offered by the HIBOR plus 2.25% per annum, guaranteed by the Company and a PRC subsidiary and pledged by structured deposit amounting to HK\$10,000,000 (equivalent to RMB9,134,000) (31 December 2019: HK\$10,000,000 (equivalent to RMB9,000,000)).

18. SHARE CAPITAL

Details of movements of share capital of the Company are as follows:

	Number of shares	Share capital HK\$
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2019, 1 January 2020 and 30 June 2020	<u>5,000,000,000</u>	<u>50,000,000</u>

	Number of shares	Share capital HK\$
Issued:		
At 1 January 2019	878,840,500	8,788,405
Exercise of share options	<u>1,475,500</u>	<u>14,755</u>
At 31 December 2019	880,316,000	8,803,160
Exercise of share options	<u>696,000</u>	<u>6,960</u>
At 30 June 2020	<u><u>881,012,000</u></u>	<u><u>8,810,120</u></u>
	30 June 2020	31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Shown in the condensed consolidated statement of financial position	<u><u>7,642</u></u>	<u><u>7,636</u></u>

All the shares issued during the period ranked pari passu in all respects with the then existing shares in issue.

PUBLICATION

This interim results announcement published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.shengyecapital.com) respectively.

By order of the Board
Sheng Ye Capital Limited
Tung Chi Fung
Chairman

Hong Kong, 20 August 2020

As at the date of this announcement, the Board comprises two Executive Directors: Mr. Tung Chi Fung and Mr. Chen Jen-Tse; and four Independent Non-executive Directors: Mr. Hung Ka Hai, Clement, Mr. Loo Yau Soon, Mr. Twoon Wai Mun, Benjamin and Mr. Fong Heng Boo.

The English transliteration of the Chinese name(s) in this announcement, where indicated with “”, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

Unless otherwise stated, translation of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.09 for information purpose only.

If there is any inconsistency in this announcement between the Chinese and English versions, the English version shall prevail.