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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

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2019

- The income from factoring and other services of Sheng Ye Capital Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2019 was RMB606.7 million representing an increase of approximately 29.0%, as compared to RMB470.4 million for the year ended 31 December 2018.
- The profit after tax for the year ended 31 December 2019 was RMB295.1 million representing an increase of approximately 39.3%, as compared to the profit after tax of approximately RMB211.9 million for the year ended 31 December 2018.
- Basic and diluted earnings per share for the year ended 31 December 2019 was RMB32 cents and RMB32 cents respectively (for the year ended 31 December 2018: basic and diluted earnings per share of RMB26 cents and RMB26 cents respectively).
- The Directors recommend the payment of a dividend of HK5.3 cents per ordinary share of the Company for the year ended 31 December 2019 (for the year ended 31 December 2018: HK4 cents per ordinary share).

ANNUAL RESULTS

The board (“**Board**”) of directors of the Company (the “**Directors**”) announces the audited consolidated results of the Group for the year ended 31 December 2019 together with comparative figures for the year ended 31 December 2018. The financial information has been approved by the Board.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	4		
Interest income from factoring service		429,214	308,484
Income from other services		21,207	37,412
Total revenue		450,421	345,896
Gain on sales of factoring assets	5	156,242	124,548
Income from factoring and other services		606,663	470,444
Other income	6(a)	37,953	17,796
Other gains and losses	6(b)	(166)	10,186
Impairment losses under expected credit loss (“ECL”) model, net of reversal		(16,960)	(17,761)
Staff costs		(69,583)	(45,447)
Other operating expenses		(88,622)	(53,088)
Donation		(1,964)	(1,800)
Share of profit of a joint venture		1,537	1,775
Share of profit of associates		4,240	4,705
Finance costs	7	(110,606)	(91,156)
Profit before taxation		362,492	295,654
Taxation	8	(67,367)	(83,780)
Profit for the year	9	295,125	211,874

	NOTE	2019 RMB'000	2018 RMB'000
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”)		4,582	794
Income tax relating to items that may be reclassified subsequently		(984)	(198)
Share of other comprehensive income (expense) of a joint venture, net of related income tax		32	(32)
Share of OCI of associates, net of related income tax		1,423	835
		<u>5,053</u>	<u>1,399</u>
OCI for the year, net of income tax		<u>5,053</u>	1,399
Total comprehensive income for the year		<u><u>300,178</u></u>	<u><u>213,273</u></u>
Profit for the year attributable to:			
– Owners of the Company		280,343	208,421
– Non-controlling interests		14,782	3,453
		<u>295,125</u>	<u>211,874</u>
Total comprehensive income for the year attributable to:			
– Owners of the Company		284,148	209,345
– Non-controlling interests		16,030	3,928
		<u>300,178</u>	<u>213,273</u>
Earnings per share			
	11		
– Basic (RMB cents)		32	26
– Diluted (RMB cents)		32	26

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	31/12/2019	31/12/2018
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property and equipment		5,840	2,728
Intangible assets		19,960	13,467
Right-of-use assets		22,147	—
Factoring assets at FVTOCI	12	—	18,609
Investment in a joint venture	13(a)	—	27,077
Investments in associates	13(b)	67,580	53,540
Prepayments for non-current assets		985	1,060
Deferred tax assets		11,319	20,683
Refundable rental deposits		2,788	—
		130,619	137,164
CURRENT ASSETS			
Factoring assets at FVTOCI	12	3,837,348	2,799,706
Other financial assets at fair value through profit or loss (“FVTPL”)		4,497	—
Derivative financial instruments		751	—
Loan receivable		9,066	12,986
Receivables from guarantee customers		7,700	—
Trade receivables		403	—
Other receivables, prepayments and others		16,113	7,892
Pledged structured deposit	14	9,000	—
Pledged bank deposits	14	86,350	8,764
Bank balances and cash	14	377,327	226,069
		4,348,555	3,055,417

	NOTES	31/12/2019 RMB'000	31/12/2018 RMB'000
CURRENT LIABILITIES			
Loans from a related party		—	10,005
Other payables and accrued charges	15	73,740	55,411
Derivative financial instruments		2,359	—
Contract liabilities		672	2,786
Income tax payable		29,682	77,521
Liabilities arising from guarantee contracts	16	12,050	—
Borrowings	17(a)	1,867,299	911,956
Bank overdraft	17(b)	17,864	—
Lease liabilities		6,613	—
		<u>2,010,279</u>	<u>1,057,679</u>
NET CURRENT ASSETS		<u>2,338,276</u>	<u>1,997,738</u>
NON-CURRENT LIABILITIES			
Lease liabilities		15,448	—
Deferred tax liabilities		35,387	18,840
		<u>50,835</u>	<u>18,840</u>
NET ASSETS		<u>2,418,060</u>	<u>2,116,062</u>
CAPITAL AND RESERVES			
Share capital	18	7,636	7,623
Reserves		2,281,363	2,012,558
Equity attributable to owners of the Company		2,288,999	2,020,181
Non-controlling interests		129,061	95,881
TOTAL EQUITY		<u>2,418,060</u>	<u>2,116,062</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital	Share premium	Capital reserves	FVTOCI reserves	Share based-payments reserve	Statutory reserves	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	6,442	917,312	—	—	2,361	21,018	158,145	1,105,278	—	1,105,278
Adjustments of application of accounting policy changes	—	—	—	(2,604)	—	—	—	(2,604)	—	(2,604)
At 1 January 2018 (restated)	6,442	917,312	—	(2,604)	2,361	21,018	158,145	1,102,674	—	1,102,674
Profit for the year	—	—	—	—	—	—	208,421	208,421	3,453	211,874
Other comprehensive income for the year	—	—	—	924	—	—	—	924	475	1,399
Total comprehensive income for the year	—	—	—	924	—	—	208,421	209,345	3,928	213,273
Issue of new shares from placing	1,178	705,979	—	—	—	—	—	707,157	—	707,157
Transaction costs attributable to issue of new shares from placing	—	(9,207)	—	—	—	—	—	(9,207)	—	(9,207)
Transfer to PRC statutory reserves	—	—	—	—	—	23,419	(23,419)	—	—	—
Capital contribution by non-controlling interests	—	—	1,547	—	—	—	—	1,547	91,953	93,500
Recognition of equity-settled share-based payments	—	—	—	—	7,341	—	—	7,341	—	7,341
Exercise of share options	3	1,703	—	—	(382)	—	—	1,324	—	1,324
At 31 December 2018	<u>7,623</u>	<u>1,615,787</u>	<u>1,547</u>	<u>(1,680)</u>	<u>9,320</u>	<u>44,437</u>	<u>343,147</u>	<u>2,020,181</u>	<u>95,881</u>	<u>2,116,062</u>
Profit for the year	—	—	—	—	—	—	280,343	280,343	14,782	295,125
Other comprehensive income for the year	—	—	—	3,805	—	—	—	3,805	1,248	5,053
Total comprehensive income for the year	—	—	—	3,805	—	—	280,343	284,148	16,030	300,178
Transfer to PRC statutory reserves	—	—	—	—	—	35,565	(35,565)	—	—	—
Capital contribution by non-controlling interests	—	—	—	—	—	—	—	—	17,150	17,150
Recognition of equity-settled share-based payments	—	—	—	—	10,006	—	—	10,006	—	10,006
Dividends recognised as distribution	—	(30,905)	—	—	—	—	—	(30,905)	—	(30,905)
Exercise of share options	13	7,223	—	—	(1,667)	—	—	5,569	—	5,569
At 31 December 2019	<u>7,636</u>	<u>1,592,105</u>	<u>1,547</u>	<u>2,125</u>	<u>17,659</u>	<u>80,002</u>	<u>587,925</u>	<u>2,288,999</u>	<u>129,061</u>	<u>2,418,060</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	2019	2018
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit for the year	295,125	211,874
Adjustment for:		
Taxation	67,367	83,780
Share of profit of a joint venture	(1,537)	(1,775)
Share of profit of associates	(4,240)	(4,705)
Depreciation of property and equipment	1,563	1,289
Depreciation of right-of-use assets	7,202	—
Amortisation of intangible assets	3,641	696
Research and development costs recognised as an expense	—	7,485
Impairment losses, net of reversal	16,960	17,761
Loss on disposal of equipment	5	62
Gain on disposal of investments in associates	(377)	—
Gain on disposal of a subsidiary	—	(514)
Gain from changes in fair value of other financial assets at FVTPL	(88)	—
Net loss arising from changes in fair value of derivative financial instruments	1,785	—
Equity-settled share-based payments expense	10,006	7,341
Finance costs	110,606	91,156
Bank interest income	(2,736)	(2,003)
Interest income from a loan receivable	(1,584)	(136)
Interest income from loan to an associate	(64)	(791)
Exchange gain, net	(1,178)	(10,124)

	2019	2018
	RMB'000	RMB'000
Operating cash flows before movements		
in working capital	502,456	401,396
Increase in factoring assets at FVTOCI	(1,026,331)	(1,498,916)
Increase in receivables from guarantee services	(7,801)	—
Increase in trade receivables	(403)	—
Decrease (increase) in other receivables, prepayments and others	2,225	(5,709)
Decrease in amount due from a related party	—	90
Decrease in receivables from sales of factoring assets	—	56,168
Decrease in security deposits for guarantee	—	11,821
Increase in other payables and accrued charges	17,460	31,556
(Decrease) increase in contract liabilities	(2,114)	2,786
Increase in liabilities from guarantee contracts	11,258	—
Decrease in deposits from counter guarantors	—	(11,821)
	<hr/>	<hr/>
Cash used in operations	(503,250)	(1,012,629)
Enterprise Income Tax paid	(90,986)	(35,899)
	<hr/>	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	(594,236)	(1,048,528)

	2019	2018
	RMB'000	RMB'000
INVESTING ACTIVITIES		
Repayments from loans to former shareholder of a subsidiary	27,500	—
Repayments from loans to associates	7,350	—
Bank interest income received	2,736	2,003
Proceeds on disposal of investments in associates	1,600	—
Interest received from a loan receivable	1,317	136
Interest received from loans to former shareholder of a subsidiary	202	—
Redemption of other financial assets at FVTPL	201	—
Interest received from loans to associates	64	791
Proceeds from disposal of equipment	2	8
Repayments from related parties	—	70,803
Net cash inflow arising on disposal of a subsidiary	—	19,656
Advances to a related party	—	(88)
Advances of a loan receivable	—	(13,143)
Advances to an associate	—	(53,500)
Received from settlement of derivative financial instruments	(177)	—
Payments for right-of-use assets	(345)	—
Security deposits paid for derivative financial instruments	(3,550)	—
Payments for refundable rental deposits	(3,626)	—
Payment for purchase of equipment and prepayments of a property	(4,447)	(2,652)
Purchases of other financial assets at FVTPL	(4,610)	—
Loans to associates	(7,350)	—
Investment in an associate	(9,000)	(42,000)
Placement of pledged structured deposit	(9,000)	—
Payment for development costs/expenses and purchase of other intangible assets	(10,294)	(14,065)
Net cash outflow on acquisition of a subsidiary	(24,240)	—
Placement of pledged bank deposits	(77,586)	(8,764)
NET CASH USED IN INVESTING ACTIVITIES	(113,253)	(40,815)

	2019 RMB'000	2018 RMB'000
FINANCING ACTIVITIES		
New borrowings raised	1,991,288	4,802,796
Loans raised from related parties	666,398	47,175
Capital contribution from non-controlling shareholders of the subsidiaries	17,150	93,500
Exercise of equity-settled share options	5,569	1,324
Issue of placing shares	—	697,950
Interest paid for financial liability arising from repurchase agreements	—	(285)
Repayment of financial liability arising from repurchase agreements	—	(10,000)
Interest paid for bank overdraft	(361)	—
Interest paid for lease liabilities	(1,402)	—
Dividends paid to former shareholder of a subsidiary prior to acquisition	(2,721)	—
Security deposits paid for borrowings	(6,296)	—
Repayment of lease liabilities	(6,705)	—
Interest paid for loans from related parties	(11,265)	(132)
Dividends paid	(30,905)	—
Interest paid for borrowings	(85,620)	(77,393)
Repayment of loans from related parties	(647,798)	(37,175)
Repayment of borrowings	(1,047,627)	(4,386,749)
NET CASH FROM FINANCING ACTIVITIES	839,705	1,131,011
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Effect of foreign exchange rate changes	1,178	10,124
CASH AND CASH EQUIVALENTS AT 1 JANUARY	226,069	174,277
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		
represented by	359,463	226,069
Bank balances and cash	377,327	226,069
Bank overdraft	(17,864)	—
	359,463	226,069

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PREPARATION

Sheng Ye Capital Limited (the “Company”) is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s immediate holding company is Wisdom Cosmos Limited. Its ultimate shareholder is Mr. Tung Chi Fung, who is also the Chairman and Executive Director of the Company.

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.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are provision of factoring and guarantee services in the People’s Republic of China (“PRC”).

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* (“HKAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 6.76%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	<u>8,398</u>
Lease liabilities discounted at relevant incremental borrowing rates	7,472
Less: Recognition exemption - short-term leases	<u>(383)</u>
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	<u>7,089</u>
Lease liabilities as at 1 January 2019	<u><u>7,089</u></u>
Analysed as	
Current	4,045
Non-current	<u>3,044</u>
	<u><u>7,089</u></u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of- use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	7,089
Reclassified from prepaid lease payments (note i)	238
Adjustments on rental deposits at 1 January 2019 (note ii)	<u>—</u>
	<u><u>7,327</u></u>
By class:	
Land and buildings	<u><u>7,327</u></u>

Notes:

- (i) Upfront payments for buildings in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current portion of prepaid lease payments amounting to RMB238,000 were reclassified to right-of-use assets.
- (ii) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. The carrying amount of discounting effect had no material impact on the consolidated financial statements of the Group as at 1 January 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
Non-current assets			
Right-of-use assets	—	7,327	7,327
Current assets			
Other receivables, prepayments and others - prepaid lease payments	238	(238)	—
Current liabilities			
Lease liabilities	—	4,045	4,045
Non-current liabilities			
Lease liabilities	—	3,044	3,044
	<u> </u>	<u> </u>	<u> </u>

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

Based on the current business model, no other impact resulted from the adoption of HKFRS 16 on the amounts reported on the opening consolidated financial statements of the Group as at 1 January 2019.

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SEGMENT INFORMATION

The chief operating decision maker (“CODM”), being the executive directors of the Company, have determined that the Group has only one operating and reportable segment 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 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 principally derived from or located in the PRC.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2019	2018
	RMB'000	RMB'000
Customer A	N/A ¹	36,877

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

4. REVENUE

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

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

	2019	2018
	RMB'000	RMB'000
Interest income from factoring service	429,214	308,484
Income from other services:		
– Guarantee service	9,155	17,962
– Information technology service	8,355	2,621
– Consulting service	661	14,483
– Other services	3,036	2,346
	21,207	37,412
	450,421	345,896

(ii) Disaggregation of revenue from contracts with customers

	2019	2018
	RMB'000	RMB'000
Timing of revenue recognition		
A point in time	6,873	14,483
Over time	5,179	4,967
Total	12,052	19,450

5. SALES OF FACTORING ASSETS

For the years ended 2019 and 2018, 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.

	2019	2018
	RMB'000	RMB'000
Gain on sales of factoring assets	<u>156,242</u>	<u>124,548</u>

6. OTHER INCOME/OTHER GAINS AND LOSSES

(a) Other income

	2019	2018
	RMB'000	RMB'000
Government subsidies	33,553	14,844
Bank interest income	2,736	2,003
Interest income from a loan receivable	1,584	136
Interest income from loan to associates	64	791
Others	16	22
	<u>37,953</u>	<u>17,796</u>

(b) Other gains and losses

	2019	2018
	RMB'000	RMB'000
Exchange gain, net	1,178	10,124
Gain on disposal of investments in associates	377	—
Gain from changes in fair value of other financial assets at FVTPL	88	—
Gain on disposal of a subsidiary	—	514
Net loss arising from changes in fair value of derivative financial instruments	(1,785)	—
Loss on disposal of equipment	(5)	(62)
Others	(19)	(390)
	<u>(166)</u>	<u>10,186</u>

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on borrowings	97,302	90,982
Interest on loans from related parties	11,541	137
Interest on lease liabilities	1,402	—
Interest on bank overdraft	361	—
Interest on financial liability arising from repurchase agreements	—	37
	<u>110,606</u>	<u>91,156</u>

8. TAXATION

	2019 RMB'000	2018 RMB'000
The charge (credit) comprises:		
Current tax		
– PRC Enterprise Income Tax (“EIT”)	35,995	84,880
– Withholding tax levied on dividend declared of a PRC subsidiary	1,625	300
– Withholding tax levied on interest income of Hong Kong subsidiaries	4,820	1,865
	<u>42,440</u>	87,045
Deferred tax	<u>24,927</u>	(3,265)
	<u>67,367</u>	<u>83,780</u>

Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. Certain PRC subsidiaries enjoy preferential tax rate according to approval from local tax bureau, including (i) a PRC subsidiary enjoys preferential tax rate of 15% since year 2016; (ii) a PRC subsidiary, located in Horgos city in the PRC, was exempted from income tax in the first 5 years since set up in year 2018, according to “關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知” (Caishui [2011] 112) issued by the State Administration of Taxation and the Ministry of Finance of the PRC.

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2019	2018
	RMB'000	RMB'000
Directors' emoluments	5,536	4,530
Other staffs costs		
– Salaries, allowances and other staff benefits, including share option expenses	82,630	49,309
– Staffs' retirement benefit scheme contributions	4,201	2,727
	<hr/>	<hr/>
Total staff costs	92,367	56,566
Less: amount capitalised in development costs	(9,188)	(5,703)
Less: staff costs recognised as research and development costs in other operating expenses	(13,596)	(5,416)
	<hr/>	<hr/>
Staff costs recognised in profit or loss	69,583	45,447
	<hr/>	<hr/>
Research and development costs recognised as an expense (included in other operating expenses)	14,269	7,485
Total depreciation of property and equipment	1,694	1,335
Less: amount capitalised in development costs	(131)	(46)
	<hr/>	<hr/>
Depreciation of property and equipment recognised in profit or loss	1,563	1,289
	<hr/>	<hr/>
Depreciation of right-of-use assets	7,202	—
Amortisation of intangible assets	3,641	696
Auditor's remuneration	2,520	1,880
	<hr/> <hr/>	<hr/> <hr/>

10. DIVIDENDS

During the year, a final dividend of HK4 cents per share in respect of the year ended 31 December 2018 was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the year amounted to HK\$35,154,000 (equivalent to RMB30,905,000) (2018: nil).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK5.3 cents (2018: HK4 cents) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting of the Company.

11. 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:

	2019 RMB'000	2018 RMB'000
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>280,343</u>	<u>208,421</u>
	2019 '000	2018 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	879,176	806,057
Effect of dilutive potential ordinary shares:		
Share options	<u>4,262</u>	<u>4,240</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>883,438</u>	<u>810,297</u>

12. FACTORING ASSETS AT FVTOCI

	31/12/2019 RMB'000	31/12/2018 RMB'000
Factoring assets at FVTOCI	3,881,779	2,855,448
Changes in fair value	<u>(44,431)</u>	<u>(37,133)</u>
	<u>3,837,348</u>	<u>2,818,315</u>
Analysed for reporting purposes as:		
Current assets	3,837,348	2,799,706
Non-current assets	<u>—</u>	<u>18,609</u>
	<u>3,837,348</u>	<u>2,818,315</u>

As at 31 December 2019, the effective interest rates of the factoring assets range mainly from 5.90% to 18.00% (2018: 6.00% to 18.36%) per annum.

13. INVESTMENT(S) IN A JOINT VENTURE/ASSOCIATES

(a) Investment in a joint venture

Details of the Group's investment in a joint venture are as follows:

	31/12/2019	31/12/2018
	RMB'000	RMB'000
Cost of investment in a joint venture, unlisted	—	25,500
Share of post-acquisition profit	—	1,609
Share of post-acquisition OCI	—	(32)
	<u>—</u>	<u>27,077</u>
	<u><u>—</u></u>	<u><u>27,077</u></u>

(b) Investments in associates

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

	31/12/2019	31/12/2018
	RMB'000	RMB'000
Cost of investments in associates, unlisted	56,000	48,000
Share of post-acquisition profit	9,322	4,705
Share of post-acquisition OCI	2,258	835
	<u>67,580</u>	<u>53,540</u>
	<u><u>67,580</u></u>	<u><u>53,540</u></u>

14. PLEDGED STRUCTURED DEPOSIT/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The ranges of effective interest rates/market rates on the Group's pledged structured deposit/pledged bank deposits/bank balances are as follows:

	Range of interest rates (per annum)	
	31/12/2019 %	31/12/2018 %
Fixed-rate pledged structured deposit	1.66	—
Fixed-rate pledged bank deposits	0~2.40	2.15
Market rate bank balances	0~1.73	0~1.61

As at 31 December 2019, a pledged structured deposit of HK\$10,000,000 (equivalent to RMB9,000,000) will be released upon the settlement of relevant bank overdraft.

15. OTHER PAYABLES AND ACCRUED CHARGES

	31/12/2019 RMB'000	31/12/2018 RMB'000
Accrued charges	40,661	22,836
Other tax payables	27,197	28,113
Advance receipt from disposal of investment in an associate	600	—
Deposits from customers	—	3,000
Other payables	5,282	1,462
	<u>73,740</u>	<u>55,411</u>

16. LIABILITIES ARISING FROM GUARANTEE CONTRACTS

	31/12/2019			31/12/2018		
	Premium less			Premium less		
	accumulated	ECL	Carrying	accumulated	ECL	Carrying
	amortisation	provision	amount	accumulated	provision	amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loan guarantee contracts in relation to:				—	—	—
– third parties	8,299	6,276	8,914	—	—	—
– an associate	2,070	1,069	2,247	—	—	—
Guarantee contracts to suppliers in relation to:						
– non-payment of payables	889	653	889	—	—	—
	<u>11,258</u>	<u>7,998</u>	<u>12,050</u>	<u>—</u>	<u>—</u>	<u>—</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, and concluded that there has been no significant increase in credit risk since initial recognition of the guarantee contracts.

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

	31/12/2019	31/12/2018
	RMB'000	RMB'000
Loan guarantee contracts in relation to		
– third parties	456,788	—
– an associate	270,000	48,000
Guarantee contracts to suppliers in relation to non-payment of payables	46,608	—
	<u>773,396</u>	<u>48,000</u>

17. BORROWINGS/BANK OVERDRAFT

(a) Borrowings

	31/12/2019	31/12/2018
	RMB'000	RMB'000
Bank borrowings	469,495	16,648
Entrusted loans	445,376	—
Bills discounted	31,107	61,818
Bonds	—	713,490
Other loans	921,321	120,000
	<u>1,867,299</u>	<u>911,956</u>
Secured	560,633	78,466
Unsecured	<u>1,306,666</u>	<u>833,490</u>
	<u>1,867,299</u>	<u>911,956</u>

(b) Bank overdraft

As at 31 December 2019, the bank overdraft amounted to 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 RMB9,000,000).

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 2018, 31 December 2018 and 31 December 2019	<u>5,000,000,000</u>	<u>50,000,000</u>
	Number of shares	Share capital HK\$
Issued:		
At 1 January 2018	740,000,000	7,400,000
Issue of new shares from placing	138,484,000	1,384,840
Exercise of share options	<u>356,500</u>	<u>3,565</u>
At 31 December 2018	<u>878,840,500</u>	<u>8,788,405</u>
Exercise of share options	<u>1,475,500</u>	<u>14,755</u>
At 31 December 2019	<u>880,316,000</u>	<u>8,803,160</u>
	31/12/2019	31/12/2018
	RMB'000	RMB'000
Shown in the consolidated statement of financial position	<u>7,636</u>	<u>7,623</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a data driven supply chain financial services provider. Being part of the non-bank financial sector, the Group is regulated by the China Banking and Insurance Regulatory Commission. The Group strives to reshape the traditional supply chain financing landscape through innovative application of information technology. Benefitting from a professional and comprehensive risk management mechanism, the Group is able to fully leverage on its self-developed “Sheng Yi Tong” online factoring system to deliver convenient, efficient, secured and quality supply chain financing and information technology services at lower cost for small and medium enterprises (“SME”s) and micro-enterprises. As of 31 December 2019, the Group offered accounts receivables financing services to SMEs and micro-enterprises aggregately amounting to over RMB34 billion, and the Group managed accounts receivables aggregately totaling over RMB70 billion. Its headquarter is in Shenzhen, the PRC.

The Group provides customers with customized financing solutions secured by, amongst others, their accounts receivables, and also offers them accounts receivables management services. These services include credit assessment, review and verification of transactions relating to the accounts receivables, collection of accounts receivables on behalf of customers, and regular reporting to customers on matters concerning their accounts receivables. In return, the Group receives interest income and also professional fees for the services rendered. It also derives income from sales of rights of factoring assets to improve the cash flow of the Group and to enhance management of the Group’s factoring assets portfolio. With the Group’s expansion in diversified corporate services in supply chain and establish of loan facilitation platform, the Group generates fee income through provision of guarantee services, information technology services, consulting services, and miscellaneous services principally including accounts receivables management services without financing.

FINANCIAL REVIEW

Revenue

The Group earns most of its revenue from the provision of factoring services, guarantee services, information technology services, consulting services and other services to customers in the PRC. For the year ended 31 December 2019, the Group made revenue of approximately RMB450.4 million, representing an increase of approximately 30.2% (for the year ended 31 December 2018: RMB345.9 million). The increase in revenue was mainly attributable to an expanded factoring business which was supported by bank and other borrowings. In addition, the Group generates fee income through provision of guarantee services, information technology services, consulting services and miscellaneous services principally including accounts receivables management services without financing.

Gain on sales of factoring assets

The Group sells the rights of factoring assets as a way to improve cash flow and manage its factoring receivables portfolio. Gain from this business segment is equal to the excess of the consideration received and receivables over the carrying amount of the factoring assets. The increase in gain on sales of factoring assets was up by approximately 25.5%, from RMB124.5 million for the year ended 31 December 2018 to RMB156.2 million for the year ended 31 December 2019. The increase was attributable mainly to the increase in market demand for factoring assets. None of the factoring assets previously sold to independent third parties involved non-performing assets.

Other income

Other income mainly comprises government subsidies, bank interest income and interest income from a loan receivable. For the year ended 31 December 2019 and 2018, the Group's other income was approximately RMB38.0 million and RMB17.8 million respectively, representing an increase of approximately 113.5%. The increase for the year ended 31 December 2019 was mainly attributable to the receipt of government subsidies of approximately RMB33.6 million, representing an increase of approximately 127.0% from approximately RMB14.8 million for the year ended 31 December 2018.

Other gains and losses

Other gains and losses mainly include exchange differences, gain on disposal of investments in associates and net loss arising from changes in fair value of derivative financial instruments.

Staff costs and other operating expenses

Staff costs and other operating expenses mainly comprise staff salaries and benefits, research and development costs, depreciation of right-of-use assets, legal and professional fees, amortisation of intangible assets and other miscellaneous items. Staff costs and other operating expenses for the year ended 31 December 2019 were RMB158.2 million (for the year ended 31 December 2018: RMB98.5 million), representing an increase of 60.6%, which was mainly attributable to the increase in headcount and salaries, research and development costs, legal and professional fees incurred as a result of business expansion.

Impairment losses under ECL model, net of reversal

Impairment losses under ECL model, net of reversal for the year ended 31 December 2019 amounted to RMB17.0 million (for the year ended 31 December 2018: RMB17.8 million), representing a decrease of 4.5% which was mainly attributable to the increase in the reversal of allowance for impairment of factoring assets.

Share of profits of a joint venture

The Group shared the profits of a joint venture which amounted to RMB1.5 million for the year ended 31 December 2019 (for the year ended 31 December 2018: shared profits of RMB1.8 million).

Share of profits of associates

The Group shared the profits of associates which amounted to RMB4.2 million for the year ended 31 December 2019 (for the year ended 31 December 2018 RMB4.7 million).

Finance costs

Finance cost consists mainly interest expenses of borrowings from banks, financial institutions, a bond investor and related parties. For the year ended 31 December 2019, finance cost was RMB110.6 million, representing an increase of 21.3% (for the year ended 31 December 2018: RMB91.2 million). The increase in finance cost was due to the increase in borrowings made by the Group to finance expansion of business operations.

Profit before taxation

As a result of the foregoing, the Group's profit before taxation increased by 22.6% from approximately RMB295.7 million for the year ended 31 December 2018 to approximately RMB362.5 million for the year ended 31 December 2019. Profit before taxation accounted for approximately 59.8% and 62.8% of the Group's income from factoring and other services in 2019 and 2018, respectively.

Taxation

Income tax expenses represent the tax expense arising from the assessable profit generated by the Group in the PRC and deferred tax. Except for certain PRC subsidiaries that enjoy preferential tax rates, PRC enterprise income tax is calculated at 25% of the estimated assessable profits for both years ended 31 December 2019 and 2018. The decrease in effective tax rate from 28.3% for the year ended 31 December 2018 to 18.6% for the year ended 31 December 2019 was mainly attributable to the increase in the profit before taxation for certain PRC subsidiaries that enjoy preferential tax rates.

For the year ended 31 December 2019, income tax expenses amounted to approximately RMB67.4 million (for the year ended 31 December 2018: RMB83.8 million).

Dividend

The Directors recommend the payment of a final dividend of HK5.3 cents per ordinary share of the Company for the year ended 31 December 2019 (for the year ended 31 December 2018: HK4 cents per ordinary share).

Business outlook and prospects

In 2019, the Group successfully transferred listing from GEM to the main board of the Stock Exchange, becoming the first mainland China commercial factoring company listed on the main board of the Stock Exchange. Since being included in the MSCI Global Small Cap Indexes - MSCI China Index in 2018, the Group has gained more market attention and investor recognition. Recently, the Group was included in the Hang Seng Composite Index and the Hong Kong Stock Connect, garnering more support from the capital market in recognition of its business development.

Looking forward, the global economy is facing new risks and challenges under the impact of the coronavirus outbreak. During this period, digitalization technology has proved its indispensable value in tackling the epidemic, which means that companies actively leveraging on digital technology will also usher in new development opportunities in this test. With the domestic epidemic gradually stabilizing, coupled with the recovery of industry and economy, and the launch of a series of trillion-level key infrastructure investment plans across the country, it should bring more growth potential in the Group's focused sectors. In addition, the Group, as a leading third-party factoring company, will also be able to gain more market opportunities with the support from favorable policies.

In the future, the Group will continue to focus on accumulating industry expertise, advancing technology innovation, building a more professional and comprehensive risk control mechanism and industry ecosystem. By actively leveraging its competitive advantages, the Group aims to provide customers with better supply chain financing and information technology services, and contribute more to helping the real economy with challenges from the epidemic.

Capital structure, liquidity, financial resources and gearing

During the year ended 31 December 2019, the Group's main source of funds was the cash generated from daily operation, and new borrowings. As at 31 December 2019, the Group had bank balances and cash of RMB377.3 million (at 31 December 2018: RMB226.1 million), of which 99.3% and 0.5% were denominated in RMB and HK dollars respectively.

As at 31 December 2019, the Group had interest-bearing borrowings and bank overdraft which amounted to RMB1,885.2 million (at 31 December 2018: RMB922.0 million). Its gearing ratio, expressed as total liabilities over total equity was 0.85 as at 31 December 2019 (at 31 December 2018: 0.51).

Use of proceeds

The Placing

On 28 June 2018, the Company, Wisdom Cosmos Limited (“**Wisdom Cosmos**”), the immediate holding 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 and the year ended 31 December 2019, 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	Actual use of net proceeds during the year ended	Intended use and expected timeline of the remaining amount of net proceeds
		31 December 2018 (Approximately HK\$ million)	31 December 2019 (Approximately HK\$ million)	
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	The remaining unutilised amount of approximately HK\$16.6 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 31 December 2019, the capital commitments of the Group comprised of purchase of intangible assets of approximately RMB0.6 million (31 December 2018: investments in associates of approximately RMB29 million and purchase of intangible assets of approximately RMB0.4 million).

Contingent liabilities

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

Pledge of assets

As at 31 December 2019, the Group had 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 (31 December 2018: fixed deposit of approximately RMB8.8 million had been pledged to a bank for facilities).

Material acquisitions and disposals of subsidiaries and associates

In February 2019, the Group entered into an agreement and disposed of its 20% investment in Shenzhen Sheng Ye Dun Hao Gold Chain Factoring Co., Ltd* (深圳盛業敦豪金鏈商業保理股份有限公司), an associate of the Group, to an independent third party at a consideration of RMB1,000,000, which resulted in the Group recognising a gain of RMB230,000 in profit or loss.

In July 2019, the Group acquired 49% of the issued share capital of Zhu Guang Sheng Ye Factoring Limited* (珠光盛業商業保理有限公司) (“ZGSY”), a joint venture which was owned as to 51% by the Group at 31 December 2018, for a consideration of RMB24,802,000. Subsequently, ZGSY became a wholly owned subsidiary of the Group.

In December 2019, the Group disposed of its 20% investment in Shengzhen Sheng Peng Non-Financing Guarantee Limited* (深圳市盛鵬非融資性擔保有限責任公司), an associate of the Group, which resulted in the Group recognising a gain of RMB147,000 in profit or loss.

Significant investment held by the Group

As at 31 December 2019, the Group had not make any significant investments.

Future plan for material investments and capital assets

The Group intends to expand and develop its diversified corporate services in supply chain and to establish loan facilitation platform with an aim to become a Fintech service provider for enterprises. To achieve the goal, the Group will further develop the capabilities and functions of its online platform.

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£ and EUR€. The Group entered into cross currency swap contracts and foreign currency forward contracts during the year 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 31 December 2019, the Group had a total of 199 staffs (31 December 2018: 117 staffs). Total staff costs (including Directors' emoluments) were approximately RMB92.4 million (for the year ended 31 December 2018: RMB56.6 million) including total share option benefits for employees were RMB10.0 million for the year ended 31 December 2019 (for the year ended 31 December 2018: RMB7.3 million). Remuneration is determined by reference to 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 the statutory mandatory provident fund scheme and social insurance together with housing provident funds for employees in Hong Kong and the 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 the 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

In 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 micro-enterprises. In April 2019, the Tianjin Local Financial Supervision Bureau promulgated the Circular on Issuing the Administrative Measures for Pilot Tianjin Commercial Factoring Companies (Trial Implementation) (Tianjin Financial Supervision Bureau Regulations [2019] No. 1) (《關於印發天津市商業保理試點管理辦法(試行)的通知(津金監規範[2019]1號)》), which tightens the regulatory standards and compliance requirements for commercial factoring companies within the administrative region. In October 2019, China Banking and Insurance Regulatory Commission issued the first national regulatory document for the quasi-financial industry, Notice on Strengthening the Supervision and Administration of Commercial Factoring Enterprises (General Office of the China Banking and Insurance Regulatory Commission [2019] No.205) (《關於加強商業保理企業監督管理的通知(銀保監辦發[2019]205號)》), which mainly concerns legal and compliant operation, strengthening of supervision and management, strict requirement for market entry and promoting industry development. It requires commercial factoring enterprises to complete their transformation towards market orientation, so as to provide better financing services for SMEs and micro-enterprises.

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 31 December 2019, 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 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 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)	63.05%
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 Limited (“**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 63.05% 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 31 December 2019, 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 31 December 2019, 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)	63.05%
Eander (Note 2)	Interest in a controlled corporation	555,000,000 (L)	63.05%
Wisdom Cosmos (Note 2)	Beneficial owner	555,000,000 (L)	63.05%

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 63.05% 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 31 December 2019, 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

Save for the grants of share options on 11 September 2017 and 14 November 2018 as disclosed in the announcements 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 the date of this announcement. During the year ended 31 December 2019, i) 16,063,000 granted options were outstanding under the share option scheme; ii) 1,475,500 granted options were exercised; iii) 2,335,000 granted options were lapsed; and iv) no granted options were cancelled.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

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

For the year ended 31 December 2019, 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.

COMPLIANCE ADVISER’S INTERESTS

As at 31 December 2019 and up to the date of this announcement, neither Dakin Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or close associates has any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 3A.07 of the Listing Rules.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with 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 by directors adopted by the Company during the year ended 31 December 2019.

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 (collectively, the “**CG Code**”). The shares of the Company were successfully listed on GEM on 6 July 2017 (the “**Listing Date**”) and 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 year from the Listing Date to 31 December 2019.

DIVIDEND POLICY

The Company has adopted a dividend policy that aims to provide the guidelines for the Board to determine whether dividends are to be declared and paid to the Shareholders and the level of dividend to be paid. Under the dividend policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among others,

- (1) the Group's actual and expected financial performance;
- (2) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;
- (3) retained earnings and distributable reserves of the Company and each of the members of the Group;
- (4) the Group's liquidity position;
- (5) interest of shareholders;
- (6) taxation consideration;
- (7) potential effect on creditworthiness;
- (8) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and
- (9) any other factors that the Board deems appropriate.

The declaration and payment of dividends by the Company shall remain to be determined at the sole discretion of the Board and is also subject to any restrictions under the Companies Law of the Cayman Islands, the Listing Rules, the laws of Hong Kong and the Company's Memorandum and Articles of Association and any other applicable laws and regulations. The Company does not have any pre-determined dividend distribution ratio. The Company's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

The Company will continually review the dividend policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the dividend policy at any time, and the dividend policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

OTHER INFORMATION

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

AUDIT COMMITTEE

The Company established an 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 of 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 financial statements and oversee the internal control and risk management procedures and systems of the Group. 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 audited consolidated financial statements for the year and the annual 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.

EVENTS AFTER THE REPORTING PERIOD

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date and information available at that date without undue cost or effort. Since early January 2020, the coronavirus outbreak has spread across mainland China and beyond, causing disruption to business and economic activity. The impact on certain key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under HKFRS 9 in 2020.

As the situation remains fluid as at the date these financial statements are authorised for issue, the Directors considered that the financial effects of the COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the COVID-19 outbreak is expected to affect the consolidated results of the Group for the first half and full year of 2020.

PUBLICATION

This annual 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 March 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. Tsoon 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).*

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

Unless otherwise stated, translation of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.12 for information purpose only. Such translation should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.