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SHENG

BUSINESS REVIEW

1. Company Overview

Sheng Ye Capital (the "**Group**" or "**SY Capital**") is a leading supply chain fintech platform provider of one-stop SaaS and financial services solutions for companies within the industry esosystem across the Asia-Pacific.

Providing flexible financing solutions to SMEs

SY Capital offers a range of flexible account receivable ("**AR**")-based direct lending and supply chain financing solutions including AR management services to meet the vast financing needs of underserved small, medium, and micro enterprises ("**SMEs**") in the region. The Group relies on its data-driven technology platform to assess, review and verify the creditworthiness of transactions relating to the AR, the collection of AR on behalf of customers, including periodic customer reporting relating to matters concerning their accounts receivables.

Providing SaaS solutions and Fintech Services

Leveraging its deep industry knowledge in the core sectors of infrastructure, medical and energy, as well as strong technology research and development ("**R&D**") capabilities, the Group provides Software as a Service ("**SaaS**") to core enterprises in the areas of smart enterprise solutions, Internet of Things, and supply chain procurement systems. The Group's SaaS offering enables it to access real-time transaction data, enhance supply chain finance offerings and deepen relationships with customers including core enterprises, SMEs and financial institutions allowing SY Capital to accelerate its platform development in the supply chain service ecosystem.

The Group's proprietary fintech platform, known as "Easy Factoring", incorporates technologies 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. Over the past year, its technology platform has also been increasingly important in driving the loan facilitation business which allows banks to tap on its customer acquisition channels, as well as facilitating the asset-backed securities ("**ABS**") and asset-backed notes ("**ABN**") issuance of large corporations through providing information technology support, AR securitization and asset management services.

These two verticals work synergistically to help strengthen our data analytics capabilities on our platform while enhancing the effectiveness of our customer screening and credit scoring system.

2. 2020 Business Highlights

Supporting the SME community and enabling businesses

Despite the disruptions to supply chains brought about in 2020 due to the COVID-19 pandemic, the Group continues to provide seamless assistance to SME customers amidst this difficult period by leveraging its cloud-based platform to facilitate applications remotely, allow loan extensions, as well as waive extension fees in order for customers to meet their working capital needs.

Total loans disbursed by the Group during the full year of 2020 amounted to over RMB13 billion, of which the bulk was extended to SMEs. In order to expand its footprint within this space, the Group also incorporated Sheng Ye Financing Guarantee Limited, a new PRC subsidiary with a financial guarantee license in August 2020 so as to provide more wide-ranging solutions for SMEs.

COVID-19 accelerates digitalization and business transformation

Although the pandemic continues to weigh on the global economy leading into 2021, China was one of the few countries to register a positive growth in GDP for 2020.

The onset of the COVID-19 pandemic has also resulted in an increasing number of SMEs and large core enterprises moving online to conduct their businesses, resulting in an over 80% jump in total platform users and an approximately two-fold increase in income from information technology services.

During this period, the Group remains committed to helping core enterprises with the provision of SaaS solutions in getting timely access to information. As the entire process is done online through our Easy Factoring platform, it not only allows companies to maximize their efficiency but also facilitates the credit assessment process by the Group's funding partners.

The digitalization and rapid adoption of fintech in the supply chain ecosystem also provided a boost to the Group's loan facilitation business, in which the daily average balance stood at RMB702 million for the year ended 31 December 2020, an increase of 15 times over the previous year. This is also driven in part by the Chinese government ("**Government**")'s push towards a new digital economy, as well as policies supporting the development and reform of the industry such as the

As the world becomes increasingly digital, the Group remains committed to investing in our platform. Over the past year, the Group has been dedicating more resources towards R&D to enhance the capabilities of its platform. Technology staff headcount (including outsourced staff) stood at 106, an increase of 58% over the previous year. The increase in technology staff headcount is also an indication of the Group's commitment to continuously improve its platform, allowing it to enhance its risk management infrastructure and benefit from superior asset quality. In April 2020, the Group's platform was also granted access to the People's Bank of China ("**PBOC**") Credit Reference Center system and was further integrated officially in February 2021, allowing it to access the credit reports of SMEs even more quickly and seamlessly.

Core industry sectors of energy, infrastructure, and medical continue to demonstrate resilient growth

Despite the economic overhang brought about by the pandemic, the three core sectors in which the Group focuses on, remained resilient and stable as they were pillars of the Chinese economy. While

Some of the notable funding partnerships forged over the past year included (a) the execution of an agreement in August 2020 with a factoring subsidiary of the fintech arm of a Fortune 500 technology giant for the re-factoring of account receivables in the medical sector; and (b) a RMB1 billion cooperation started from November 2020 with one of the pioneering digital banks in China, to provide financing solutions for SMEs in the infrastructure and medical sectors.

More recently in March 2021, the Group also signed a two-year RMB525 million offshore syndicated loan agreement and a strategic cooperation agreement with a consortium led by Mega International Commercial Bank Co., Ltd. and Bank SinoPac. This not only provided additional liquidity for strengthening the Group's capital base, but was also the first offshore syndicated loan in China's factoring market.

These collaborations are a strong testament of the Group's fintech capabilities and robust digital technology platform. Through its funding partners the Group was also able to create additional sources of financing to drive its loan facilitation business, enabling the Group to provide tailor-made solutions to the SME community.

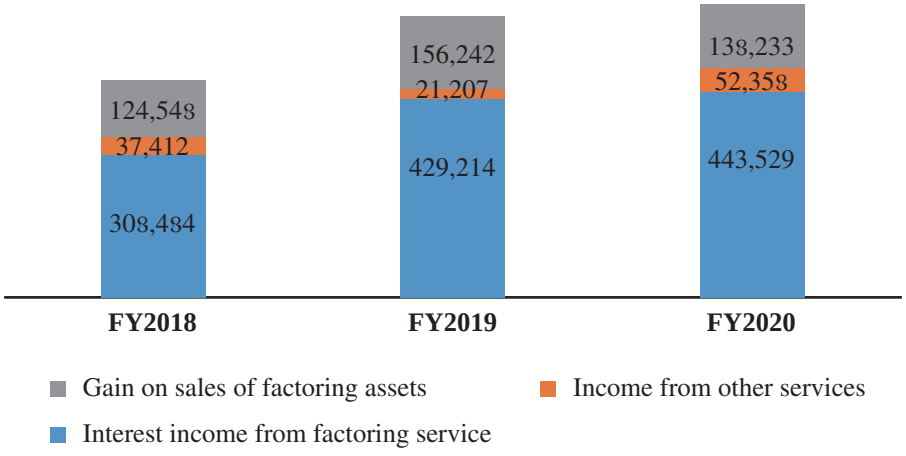
On the equity side, the Group successfully raised HKD388.5 million in equity through a top-up share placement executed in September 2020. This was the second share placement undertaken by the Group since its successful debut listing on the Hong Kong Stock Exchange in 2017. The proceeds from the placement not only rein4pocedthe Group's strong balance sheet position but was also symbolic as it drew strong interest from the international investor community.

FINANCIAL REVIEW

Income from factoring and other services

The Group maintained a positive growth trajectory in 2020. Income from factoring and other services reached RMB634.1 million during the year, an increase of 4.5% compared with 2019. Within this: a) interest income from factoring service reached RMB443.5 million, an increase of 3.3% 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 and ABN issuers, reached RMB52.4 million, an increase of 146.9% year-on-year, c) gain on sales of factoring assets amounted to RMB138.2 million, a decrease of 11.5% year-on-year. The significant increase in income from other services was mainly contributed by the expansion of its loan facilitation business, due to the Group's push towards a platform-based transformation, providing SMEs and core enterprises with convenient supply chain SaaS solutions and one-stop financing services.

Income from factoring and other services (RMB'000)



Other gains and losses

The Group booked other gains of RMB45.8 million in 2020 mainly due to the increase in gain from changes in fair value of other financial assets at fair value through profit or loss ("**FVTPL**") and the net exchange gain. The increase in fair value of other financial assets at FVTPL was mainly due to the increase in gain from changes in fair value of equity tranche of ABS and ABN issued by core enterprises. The Group has assisted in the ABS and ABN issuances by leveraging its fintech capabilities to enhance the efficiency and certainty of the issuances. The increase in the net exchange gain was mainly due to the borrowings denominated in USD as a result of appreciation of RMB against USD during the year.

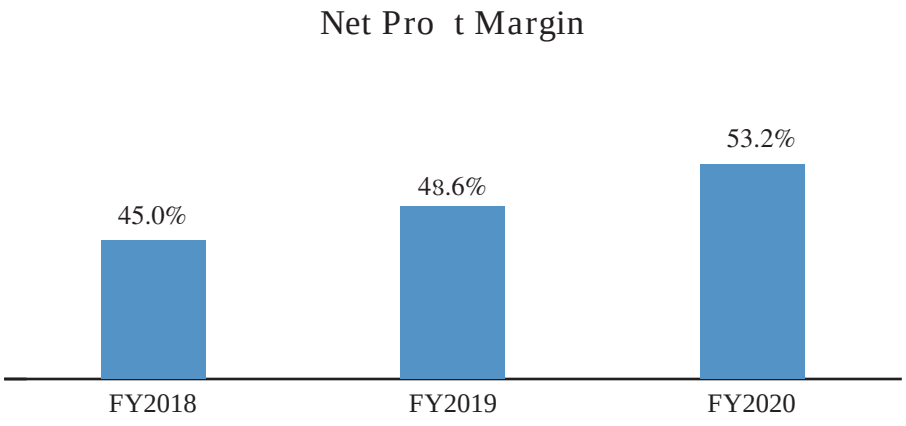
Expenses

Administrative and other expenses mainly comprise staff costs, R&D costs, depreciation of right-of-use assets and amortisation of intangible assets. Administrative and other expenses recognised in profit or loss in the year of 2020 was RMB189.7 million, an increase of 18.4% year-on-year mainly due to the increase in staff costs and R&D costs as a result of business expansion. R&D costs recognised in other expenses increased by 64.5% during the year to strengthen its fintech solutions and its Easy Factoring Cloud platform. The number of IT engineers rose over 58% year-on-year, accounting for 37% of the total staff, at the end of 2020. Total staff cost recognised in administrative expenses for the year of 2020 was RMB95.2 million, an increase of 36.8% year-on-year was mainly due to the increase in headcount.

The operational cost-to-income ratio for the year of 2020 was 29.2% as compared with 22.4% in 2019. This excludes one-time expenses. The Group's cost-to-income ratio reflects its expansion efforts relating to talent recruitment to further improve business efficiency and customer experience.

Net profit

Net profit in the year of 2020 was RMB337.4 million, an increase of 14.3% year-on-year. Net profit margin was 53.2%, which was 4.6 percentage points higher than that of the same period last year.

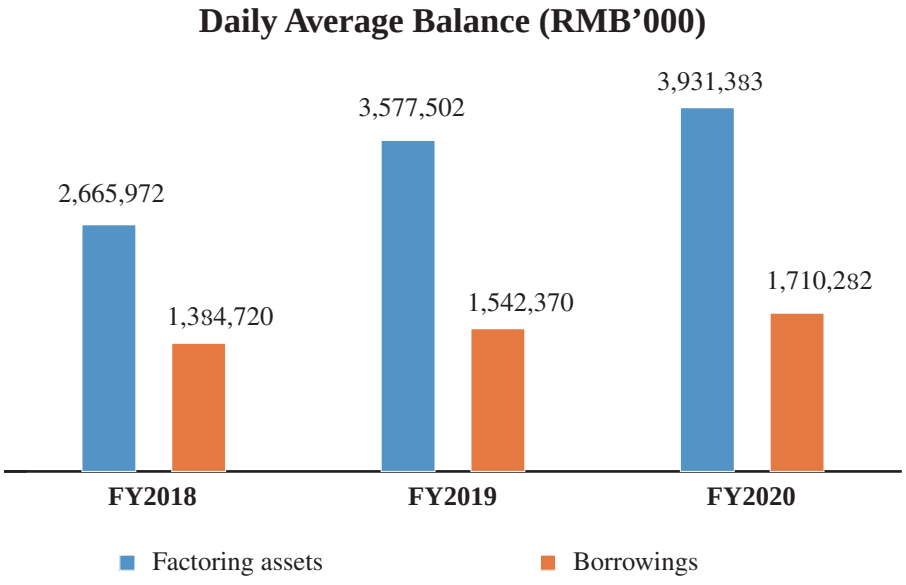


Factoring assets at fair value through other comprehensive income ("FVTOCI")

Factoring assets at FVTOCI as of 31 December 2020 were RMB3,804.2 million, a 0.9% decrease year-on-year. Daily average factoring assets over the year of 2020 were RMB3,931.4 million, a 9.9% increase over the year of 2019. Based on daily average factoring assets, interest yield on factoring assets in the year of 2020 was 11.3%, which was 0.7 percentage points lower year-on-year, mainly due to (i) the lower market interest rates as part of the national policies for promoting financial inclusion and supporting the real economy; and (ii) higher allocation to the lower-yield products in the medical sector to support medical suppliers during the pandemic.

Borrowings

Borrowings as of 31 December 2020 was RMB1,475.9 million, a 21.0% decrease year-on-year. Daily average borrowings over the year of 2020 were RMB1,710.3 million, a 10.9% increase year-on-year. The increase in finance costs of RMB16.1 million year-on-year was mainly due to an increase in daily average borrowings to finance the Group's business expansions.



Taxation

Income tax expenses represent the tax expense arising from the assessable profit generated by the Group in the PRC, withholding tax levied on interest income of Hong Kong subsidiaries 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 2020 and 2019. The decrease in effective tax rate from 18.6% for the year ended 31 December 2019 to 12.8% for the year ended 31 December 2020 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 2020, income tax expenses amounted to approximately RMB49.7 million (for the year ended 31 December 2019: RMB67.4 million).

BUSINESS OUTLOOK AND PROSPECTS

SY Capital's business continues to ride on the strong macro-economic fundamentals of China's economy. The Group believes that the broad policy supporting the development of private companies and innovation[2] in the new digital economy will continue to benefit the supply chain technology and financing landscape.

[2] https://www.ndrc.gov.cn/xxgk/zcfb/tz/202010/t20201023_1248824.html

Powering forward as a supply chain fintech platform

As part of leading innovation in technology, the Group unveiled a 3-year growth initiative in January this year, called the "Dual-Engine, One Platform (2+1)" model. The "dual-engine" refers to both "industrial technology" and "digital financing" as the two growth engines. By harnessing "industrial technology" to provide core enterprises with SaaS solutions including smart infrastructure solutions, Internet-of-Things and procurement systems, the Group becomes more deeply entrenched within the industry. This in turn reinforces the quality of transaction data the Group has on its platform, allowing it to accelerate the development of digital financing within the industry ecosystem, and drive the convergence of supply chain services on its "one platform", effectively positioning the Group as a one-stop solution for SaaS and supply chain financial services.

Strengthening focus on R&D

Technology and big data analytics will continue to be an important component of the Company's DNA. The Dual-Engine, One-Platform initiative will see a deeper focus and further R&D investment into the Group's infrastructure, which will set a strong foundation for its technology leadership within the supply chain ecosystem. Going forward, the Group will strengthen its R&D capabilities through further investment into its technology platform as part of its corporate objective of being a leading supply chain fintech platform across the Asia-Pacific.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND GEARING

During the year ended 31 December 2020, the Group's main source of funds was the cash generated from daily operations, proceeds from new borrowings and the placement of shares. As at 31 December 2020, the Group had bank balances of RMB348.7 million (31 December 2019: RMB377.3 million), of which 97.8% and 0.9% were denominated in RMB and HKD respectively.

As at 31 December 2020, the Group had interest-bearing borrowings and bank overdraft which amounted to RMB1,486.7 million (31 December 2019: RMB1,885.2 million). Its gearing ratio, expressed as total liabilities over total equity was 0.58 as at 31 December 2020 (at 31 December 2019: 0.85).

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of HK6.3 cents per ordinary share of the Company for the year ended 31 December 2020 (for the year ended 31 December 2019: HK5.3 cents per ordinary share).

USE OF PROCEEDS

The Placement in 2018

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 Placement Agents A**") entered into a placement agreement pursuant to which the Wisdom Cosmos agreed to place, through the Joint Placement Agents A on a best effort basis, a maximum of 148,000,000 existing ordinary shares at a price of HKD6.00 per share ("**Placement A**").

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 ("**Subscription A**").

The Placement A and the Subscription A 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 Placement A) were subscribed by Wisdom Cosmos at the subscription price of HKD6.00 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 HKD819.5 million (equivalent to approximately RMB698.0 million) from the Placing A and the Subscription A.

The placing price of HKD6.00 per placing share represents: (i) a discount of approximately 16.6% to the closing price of HKD7.19 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 HKD7.28 per share as quoted on the Stock Exchange for the last 5 consecutive trading days prior to 28 June 2018.

The Placement in 2020

On 11 September 2020 (before the trading hours), the Company, Wisdom Cosmos, Macquarie, DBS Asia Capital Limited ("**DBS**") and BOCI Asia Limited ("**BOCI**") (Macquarie, DBS and BOCI collectively referred to as the "**Joint Placement Agents B**") entered into a placement agreement pursuant to which the Wisdom Cosmos agreed to place, through the Joint Placement Agents B on a best effort basis, a maximum of 55,500,000 existing ordinary shares at a price of HKD7.00 per share ("**Placement B**").

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 ("**Subscription B**").

The Placement B and the Subscription B were completed on 15 September and 21 September 2020 respectively. An aggregate of 55,500,000 new shares (equals to the number of the shares successfully placed under Placement B) were subscribed by Wisdom Cosmos at a price of HKD7.00 for each new share. The new shares from Placement B and Subscription B represent approximately 5.93% of the issued share capital of the Company translating to total net proceeds of approximately HKD382.7 million (equivalent to approximately RMB334.1 million).

The placing price of HKD7.00 per share represents: (i) a discount of approximately 15.15% to the closing price of HKD8.25 per share as quoted on the Stock Exchange on 10 September 2020; and (ii) a discount of approximately 13.26% to the average of the closing price of approximately HKD8.07 per share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including 10 September 2020.

Use of proceeds from the Placement

During the year ended 31 December 2018, 31 December 2019 and 31 December 2020, details of the use of proceeds of the placement 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 year ended 31 December 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	16.6	The amount of the net proceeds for developing the online factoring platform and IT system of the Group had been fully utilised.
Expansion of the supply chain financing operation of the Group	363.6	–	–	363.6	The amount of the net proceeds for expansion of the supply chain financing operation of the Group had been fully utilised.
Enhancing the online factoring platform, SasS capabilities and data-driven risk control system of the Group	19.1	–	–	18.0	The remaining unutilised amount of approximately HKD1.1 million will be used for enhancing the online factoring platform, SaaS capabilities and data-driven risk control system of the Group and is expected to be fully utilised by 30 June 2021.

CAPITAL COMMITMENTS

As at 31 December 2020, the capital commitments of the Group comprised investment in an associate of approximately RMB 3.2 million, purchase of intangible assets of approximately RMB 0.1 million (31 December 2019: purchase of intangible assets of approximately RMB 0.6 million).

CONTINGENT LIABILITIES

Save as disclosed in note 19 of the "Notes to the consolidated financial statements", the Group did not have any other guarantees or other material contingent liabilities.

FOREIGN EXCHANGE RISKS

The Group's exposure to foreign currency risk related primarily to bank balances, pledged bank deposits, other receivables, borrowings, bank overdraft and lease liabilities that are denominated in HK$, US$, S$ 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 2020, the Group had a total of 287 staffs (31 December 2019 199 staffs). Total staff costs (including Directors' emoluments) were approximately RMB123.4 million (for the year ended 31 December 2019: RMB92.4 million) including total share option benefits for employees were RMB5.5 million for the year ended 31 December 2020 (for the year ended 31 December 2019: RMB10.0 million). Remuneration is determined by reference to market conditions and the performance, qualifications and experience of individual employees. Year-end bonuses are based on individual performance and are 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

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, which has been 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 31 December 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 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**")			

Save as disclosed herein, as at 31 December 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 31 December 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	555,500,000 (L)	59.31%
Eander *(Note 2)*	Interest in a controlled corporation	555,500,000 (L)	59.31%
Wisdom Cosmos *(Note 2)*	Beneficial owner	555,500,000 (L)	59.31%

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 555,500,000 shares of the Company, representing approximately 59.31% 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 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 year ended 31 December 2020, i) 29,203,000 granted options were outstanding under the share option scheme; ii) 780,000 granted options were exercised; iii) 3,480,000 granted options were lapsed; and iv) no granted options were cancelled.

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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 rec.5 (divi1uiution)5 ( )0t5 (The)5 ( )0

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	**2020**	2019
		RMB'000	*RMB'000*
Revenue	*5*		
Interest income from factoring service		**443,529**	429,214
Income from other services		**52,358**	21,207
Total revenue		**495,887**	450,421
Gain on sales of factoring assets	*6*	**138,233**	156,242
Income from factoring and other services		**634,120**	606,663
Other income	*7(a)*	**24,067**	37,953
Other gains and losses	*7(b)*	**45,771**	(166)
Impairment losses under expected credit loss ("ECL") model, net of reversal	*8*	**(15,200)**	(16,960)
Administrative and other expenses	*11*	**(189,655)**	(160,169)
Share of profit of a joint venture		**–**	1,537
Share of profit of associates		**14,706**	4,240
Finance costs	*9*	**(126,721)**	(110,606)
Profit before taxation		**387,088**	362,492
Taxation	*10*	**(49,692)**	(67,367)
Profit for the year	*11*	**337,396**	295,125

	NOTE	2020	2019
		RMB'000	*RMB'000*
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
Fair value change, net of ECL and reclassification of fair value through other comprehensive income ("FVTOCI") reserves upon derecognition, on:			
– factoring assets at FVTOCI		**(1,735)**	4,582
Income tax relating to items that may be reclassified subsequently		**(91)**	(984)
Share of other comprehensive income ("OCI") of a joint venture, net of related income tax		**–**	32
Share of other comprehensive (expense) income of associates, net of related income tax		**(721)**	1,423
Other comprehensive (expense) income for the year, net of income tax		**(2,547)**	5,053
Total comprehensive income for the year		**334,849**	300,178
Profit for the year attributable to:			
– Owners of the Company		**329,252**	280,343
– Non-controlling interests		**8,144**	14,782
		337,396	295,125
Total comprehensive income for the year attributable to:			
– Owners of the Company		**327,098**	284,148
– Non-controlling interests		**7,751**	16,030
		334,849	300,178
Earnings per share	*13*		
– Basic *(RMB cents)*		**37**	32
– Diluted *(RMB cents)*		**37**	32

	NOTES	**31/12/2020**	31/12/2019
		RMB'000	*RMB'000*
CURRENT LIABILITIES			

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserves *RMB'000*	FVTOCI reserves *RMB'000*	Share based-payments reserve *RMB'000*	Statutory reserves *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2019	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 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	–									

CONSOLIDATED STATEMENT OF CASH FLOWS

	2020	2019
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Profit for the year	**337,396**	295,125
Adjustment for:		
Taxation	**49,692**	67,367
Share of profit of a joint venture	**–**	(1,537)
Share of profit of associates	**(14,706)**	(4,240)
Depreciation of property and equipment	**2,254**	1,563
Depreciation of right-of-use assets	**9,970**	7,202
Amortisation of intangible assets	**5,494**	3,641
Impairment losses under ECL model, net of reversal	**15,200**	16,960
Loss on disposal of equipment	**24**	5
Loss (gain) on disposal of investments in associates	**48**	(377)
Rent concessions	**(224)**	–
Gain from modification of a borrowing	**(859)**	–
Gain from termination of a lease contract	**(26)**	–
Gain from changes in fair value of other financial assets at FVTPL	**(33,251)**	(88)
Net loss arising from changes in fair value of derivative		

	2020	2019
	RMB'000	*RMB'000*
FINANCING ACTIVITIES		
New borrowings raised	**2,090,249**	1,991,288
Loans raised from related parties	**449,359**	666,398
Issue of placing shares	**334,075**	–
Repayment of security deposits for borrowings	**6,296**	–
Proceed received on exercise of equity-settled share options	**3,018**	5,569
Capital contribution from non-controlling shareholders of the subsidiaries	**–**	17,150
Dividends paid to former shareholder of a subsidiary prior to acquisition	**–**	(2,721)
Security deposits paid for borrowings	**–**	(6,296)
Interest paid for bank overdraft	**(494)**	(361)
Interest paid for lease liabilities	**(1,487)**	(1,402)
Repayment of lease liabilities	**(8,831)**	(6,705)
Interest paid for loans from related parties	**(8,559)**	(11,265)
Dividends paid	**(41,650)**	(30,905)
Interest paid for borrowings	**(123,392)**	(85,620)
Repayment of loans from related parties	**(449,359)**	(647,798)
Repayment of borrowings	**(2,473,565)**	(1,047,627)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(224,340)**	839,705
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(49,412)**	132,216
Effect of foreign exchange rate changes	**27,836**	1,178
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**359,463**	226,069
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by	**337,887**	359,463
Bank balances	**348,715**	377,327
Bank overdraft	**(10,828)**	(17,864)
	337,887	359,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the 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 year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. 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 year had no impact on the financial position and performance of the Group but affect the presentation and disclosures in the consolidated financial statements.

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 HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16;

- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several London Interbank Offered Rate ("LIBOR"), Hong Kong Interbank Offered Rate ("HIBOR") bank loans which will or may be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

4. SEGMENT INFORMATION

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 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.

5. REVENUE

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

	2020	2019
	RMB'000	*RMB'000*
Customer A	**61,928**	N/A[1]
Customer B	**59,917**	N/A[1]

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

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

	2020	2019
	RMB'000	*RMB'000*
Interest income from factoring service	**443,529**	429,214
Income from other services:		
– Information technology service	**25,286**	8,355
– Guarantee service	**17,324**	9,155
– Consulting service	**–**	661
– Other services	**9,748**	3,036
	52,358	21,207
	495,887	450,421

(ii) Disaggregation of revenue from contracts with customers

	2020	2019
	RMB'000	*RMB'000*
Timing of revenue recognition		
Over time		
– Information technology service	**11,981**	2,539
– Other services	**8,299**	2,640
	20,280	5,179
A point in time		
– Information technology service	**13,305**	5,816
– Consulting service	**–**	661
– Other services	**1,449**	1,396

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7. OTHER INCOME/OTHER GAINS AND LOSSES

(a) Other income

	2020	2019
	RMB'000	*RMB'000*
Government subsidies	**19,942**	33,553
Bank interest income	**2,890**	2,736
Interest income from a loan receivable	**1,190**	1,584
Interest income from loans to associates	**–**	64
Others	**45**	16
	24,067	37,953

(b) Other gains and losses

	2020	2019
	RMB'000	*RMB'000*
Gain from changes in fair value of other financial assets at FVTPL	**33,251**	88
Exchange gain, net	**27,836**	1,178
Gain from modification of a borrowing	**859**	–
Gain from termination of a lease contract	**26**	–
Loss on disposal of equipment	**(24)**	(5)
(Loss) gain on disposal of investments in associates	**(48)**	377
Net loss arising from changes in fair value of derivative financial instruments	**(16,127)**	(1,785)
Others	**(2)**	(19)
	45,771	(166)

8. IMPAIRMENT LOSSES UNDER ECL MODEL, NET OF REVERSAL

	2020	2019
	RMB'000	*RMB'000*
Impairment losses recognised (reversed) on:		
– Factoring assets at FVTOCI	**11,830**	11,880
– Financial guarantee contracts	**7,152**	792
– Loan receivable	**(3,978)**	4,187
– Receivables from guarantee customers	**196**	101
	15,200	16,960

9. FINANCE COSTS

	2020	2019
	RMB'000	*'000*
Interest on borrowings	**116,181**	97,302
Interest on loans from related parties	**8,559**	11,541
Interest on lease liabilities	**1,487**	1,402
Interest on bank overdraft	**494**	361
	126,721	110,606

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2020	2019
	RMB'000	*RMB'000*
Directors' emoluments	**6,503**	5,536
Other staffs costs (excluding directors' emoluments)		
– Salaries, allowances and other staff benefits, including share option expenses	**116,194**	82,630
– Staffs' retirement benefit scheme contributions	**656**	4,201
Total staff costs	**123,353**	92,367
Less: amount capitalised in development costs	**(5,581)**	(9,188)
Less: staff costs recognised as research and development costs in other expenses	**(22,577)**	(13,596)
Staff costs recognised in administrative expenses	**95,195**	69,583
Total depreciation of property and equipment	**2,310**	1,694
Less: amount capitalised in development costs	**(56)**	(131)
Depreciation of property and equipment recognised in administrative expenses	**2,254**	1,563
Depreciation of right-of-use assets recognised in administrative expenses	**9,970**	7,202
Amortisation of intangible assets recognised in administrative expenses	**5,494**	3,641
Auditor's remuneration recognised in administrative expenses	**2,900**	2,520
Covid-19-related rent concessions	**(224)**	–
Other expenses		
– Research and development costs	**23,466**	14,269
– Donation	**1,060**	1,964
Total other expenses	**24,526**	16,233

12. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

	2020	2019
	RMB'000	*RMB'000*
2019 final – HK5.3 cents (2019: 2018 final dividend HK4 cents) per share	**46,694**	35,154

	2020	2019
	RMB'000	*RMB'000*
Shown in the consolidated financial statements	**42,652**	30,905

14. FACTORING ASSETS AT FVTOCI

	31/12/2020	31/12/2019
	RMB'000	*RMB'000*
Factoring assets at FVTOCI	**3,804,200**	3,837,348
Analysed for reporting purposes as:		
Current assets	**3,789,922**	3,837,348
Non-current assets	**14,278**	–
	3,804,200	3,837,348

As at 31 December 2020, the effective interest rates of the factoring assets range mainly from 5.80% to 17.5% (2019: 5.90% to 18.00%) per annum.

The following is an aging analysis based on due dates of the factoring assets at FVTOCI instalments which are past due (instalments which are not yet due at the end of the reporting period are excluded):

	31/12/2020	31/12/2019
	RMB'000	*RMB'000*
Past due by:		
31 – 60 days	**1,381**	–
61 – 90 days	**8,090**	–
Over 90 days	**11,940**	–
	21,411	–

15. OTHER FINANCIAL ASSETS AT FVTPL

	31/12/2020	31/12/2019
	RMB'000	*RMB'000*
Equity tranche	**91,980**	–
Distressed debt asset	**7,782**	–
Trust fund6 316.1391 Tm(Distressed debt asset)TjETt		

16. INVESTMENTS IN ASSOCIATES

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

	31/12/2020	31/12/2019
	RMB'000	*RMB'000*
Cost of investments in associates, unlisted	**130,000**	56,000
Share of post-acquisition profit, net of dividends declared	**19,374**	9,322
Share of post-acquisition OCI	**1,537**	2,258
	150,911	67,580

17. PLEDGED STRUCTURED DEPOSITS/PLEDGED BANK DEPOSITS/BANK BALANCES

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)	
	31/12/2020	31/12/2019
	%	%
Fixed-rate pledged bank deposits	**0–1.28**	0–2.40
Market rate bank balances	**0–1.73**	0–1.73
Fixed-rate pledged structured deposit	**N/A**	1.66

The pledged structured deposit of HK$10,000,000 (equivalent to RMB9,000,000) as at 31 December 2019 was released during the year ended 31 December 2020.

18. OTHER PAYABLES AND ACCRUED CHARGES

	31/12/2020	31/12/2019
	RMB'000	*RMB'000*
Accrued charges	**43,017**	40,661
Other tax payables	**30,089**	27,197
Settlement payables to factoring customers	**18,481**	4,994
Deposits from factoring customers	**6,440**	–
Dividend payable to a non-controlling shareholder of a PRC subsidiary	**5,531**	–
Dividend payable to shareholders of the Company	**1,002**	–
Advance receipt from disposal of investment in an associate	**–**	600
Other payables	**992**	288
	105,552	73,740

19. LIABILITIES ARISING FROM GUARANTEE CONTRACTS

	31/12/2020			31/12/2019		
	Premium less accumulated amortisation	**ECL provision**	**Carrying amount**	Premium less accumulated amortisation	ECL provision	Carrying amount
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Loan guarantee contracts in relation to:						
– third parties	**16,114**	**19,614**	**22,536**	8,299	6,276	8,914
– an associate	**4,937**	**959**	**4,937**	2,070	1,069	2,247
Guarantee contracts to suppliers in relation to:						
– non-payment of payables	**747**	**2,269**	**2,269**	889	653	889
	21,798	**22,842**	**29,71,798**			

20. BORROWINGS/BANK OVERDRAFT

(a) Borrowings

	31/12/2020	31/12/2019
	RMB'000	*RMB'000*
Bank borrowings	**765,501**	469,495
Entrusted loans	**124,738**	445,376
Bills discounted	**30,352**	31,107
Other loans	**555,322**	921,321
	1,475,913	1,867,299
Secured	**1,190,253**	560,633
Unsecured	**285,660**	1,306,666
	1,475,913	1,867,299

(b) Bank overdraft

21. 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, 31 December 2019 and 31 December 2020	5,000,000,000	50,000,000

	Number of shares	Share capital *HK$*
Issued:		
At 1 January 2019	878,840,500	8,788,405
Exercise of share options	1,475,500	14,755
At 31 December 2019	880,316,000	8,803,160

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in Note 12 of the consolidated financial statements, the Group had no other significant subsequent event after the reporting period.

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, 18 March 2021

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).*

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$1.19 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.