东正金融
DONGZHENG AFC

Shanghai Dongzheng Automotive Finance Co., Ltd.*

上海東正汽車金融股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

stock code：2718

Annual Report 2019

*For identification purposes only

CONTENT

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Fan *(Chairman)*
Mr. Shao Yongjun

Non-executive Directors

Mr. Koh Tee Choong
Mr. Li Guozhou (appointed on 23 September 2019)
Mr. Yin Yaoliang (resigned on 23 September 2019)

Independent Non-executive Directors

Mr. Wong Man Chung Francis
(appointed on 24 February 2020)
Mr. Lin Zheying
Ms. Liang Yanjun
Mr. Lau Wai Leung Anders
(resigned on 31 December 2019)

BOARD OF SUPERVISORS

Mr. Li Huihua *(Chairman)*
Mr. Li Tao
Ms. Wang Qing

AUDIT COMMITTEE

Mr. Wong Man Chung Francis *(Chairman)*
(appointed on 24 February 2020)
Mr. Lin Zheying
Ms. Liang Yanjun
Mr. Lau Wai Leung Anders
(resigned on 31 December 2019)

REMUNERATION COMMITTEE

Mr. Lin Zheying *(Chairman)*
Mr. Koh Tee Choong
Mr. Wong Man Chung Francis
(appointed on 24 February 2020)
Ms. Liang Yanjun (appointed on 31 December 2019
and resigned on 24 February 2020)
Mr. Lau Wai Leung Anders
(resigned on 31 December 2019)

NOMINATION COMMITTEE

Mr. Lin Zheying *(Chairman)*
Ms. Liang Yanjun
Mr. Koh Tee Choong

RISK MANAGEMENT COMMITTEE

Mr. Lin Fan *(Chairman)*
Mr. Shao Yongjun
Mr. Wong Man Chung Francis
(appointed on 24 February 2020)
Ms. Liang Yanjun (appointed on 31 December 2019
and resigned on 24 February 2020)
Mr. Lau Wai Leung Anders
(resigned on 31 December 2019)

JOINT COMPANY SECRETARIES

Ms. Yao Wen
Mr. Chan Pak Hung (appointed on 31 December 2019)
Ms. Yu Wing Sze (resigned on 31 December 2019)

AUTHORISED REPRESENTATIVES

Mr. Shao Yongjun
Ms. Yao Wen

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISORS

YTL LLP (as to Hong Kong laws)
Suites 2606–08, China Resources Building
26 Harbour Road
Wanchai, Hong Kong

Hubei Ruoyan Law Firm (as to PRC laws)
17th Floor, Block B, Chutian Metropolis Garden
No. 1 Zhongbei Road
Wuchang District, Wuhan
Hubei, China

COMPLIANCE ADVISOR

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

WEBSITE

www.dongzhengafc.com

STOCK CODE

2718

REGISTERED ADDRESS AND ADDRESS OF THE HEAD OFFICE IN THE PRC

Unit ABC, 30/F., Mirae Asset Tower
No. 166, Lu Jia Zui Ring Road
Shanghai, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 5905, 59/F.
The Center
99 Queen's Road Central
Hong Kong

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of Shanghai Dongzheng Automotive Finance Co., Ltd.*, I hereby present the annual report for the year ended 31 December 2019 of the Company to the Shareholders.

In 2019, the Company was successfully listed on the Main Board of the Stock Exchange on 3 April, marking a significant milestone. It is the only Hong Kong listed company among the 25 auto finance companies in China. By tapping into the industrial strengths of our two major shareholders ZhengTong and Dongfeng Group, the Company continued to maintain its steady and upward development momentum in strict compliance with the supervision by the CBIRC.

In 2019, the overall automobile sales in the PRC market continued in a declining trend without noticeable turnaround. In the short term, the market landscape is not optimistic for the manufacturing industry, including the automobile industry. The upstream and downstream players along the chain of automobile industry embraced unprecedented challenges. Against such unfavorable external conditions, the Company proactively implemented various measures, including "taking responsibility, exercising risk control, improving efficiency, deleveraging, stabilizing growth, and securing revenue".

As regards "taking responsibility", the Company continued to fulfil its corporate social responsibility by carrying on its mission to service the real economy, despite capital pressure on loan spread, as well as insufficient lending momentum.

As regards "exercising risk control", the Company pursued comprehensive risk management, developed three lines of defense, and fully utilized big data drive strategy in the course of credit approval and collection processes etc. These initiatives effectively identified, prevented, and controlled diversifiable risks, while continuing to enhance our ability on risk control.

As regards "improving efficiency", the management of the Company scientifically and rationally established key performance indicators focusing towards our customers, and continued to optimize the operating procedures to form the closed-loop assessment system driven by results, pursuant to which, all employees fulfilled their responsibility and improved human capital efficiency.

As regards "deleveraging", we adopted steady strategy to raise capital to secure our liquidity.

As regards "stabilizing growth", we tapped into our comparative strengths in our channel expansion and adopted screening approaches so as to build a mutually beneficial ecosystem with our strategic partners having precise positioning on customer base, location and product. At the management level, we consolidated our foundation, focused on key areas, and improved the weak links, with a view to develop a sustainable business operation in a scientific manner.

As regards "securing revenue", we managed to overcome the decrease in the fee- and commission-based income structure, as well as unfavorable internal and external conditions, while reasonably adjusting the credit structure to increase income and lower fees. We strove to create values and realise return to the Shareholders.

By virtue of the above measures, we effectively addressed the unfavorable industry conditions with our commitments to providing premiere and efficient financial services to our customers, manufacturers, and dealers. As a rising star in the auto finance sector, the Company recorded its asset scale exceeding RMB10 billion. During the year, the Company recorded operating income amounted to RMB800 million with a net profit of nearly RMB400 million. Non-performing loan ratio was capped at 0.44%. Provision coverage ratio was 423.97%. Net interest margin was 4.83%. Capital adequacy ratio was 41.62%. To reward the Shareholders, the Company paid an interim dividend of RMB0.08 per share (inclusive of tax).

Despite the Company being well positioned, an unexpected COVID-19 outbreak took away the hustle and bustle of the Chinese New Year celebration. Every Chinese citizen has been taking the initiative to combat this outbreak. The Company has also launched the donation campaign "Expeditious Assistance to Hubei and Wuhan". Despite the epidemic impacts on the operation of the Company, our caring action on "boundless love for dedicated doctors" has demonstrated strong sense of social responsibility, mission, proactiveness, and gravity. In such a collective action, we will advance forward with victory.

In the year 2020, China's long term economic conditions remain positive. In view of the increasing economic pressure in the short term, more macroscopic counter-cyclical adjustments will be required alongside aggressive fiscal policies for positive outcomes and stable monetary policies for greater flexibility. As economy is the barometer of the finance sector, we shall efficiently leverage various favorable policies introduced by the government for industries to transform development strategy, optimize the product mix, sustain the growth momentum, and rationalize the capital structure.

The Company has been listed for nearly one year. On behalf of the Board, I hereby express my heartfelt appreciation to all Shareholders, the society and investors for their support to the Company, and thank the management and all employees for their diligence and contribution for the past year.

Lin Fan
Chairman

Shanghai, PRC, 27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company is an automotive finance company licensed and regulated by the CBIRC focusing on the luxury vehicle market. The Company's principal business comprises (i) retail loan business, where the Company provides retail loans, direct leasing products and other financial services to the end customers, major customers and corporate clients who wish to purchase vehicles; and (ii) dealer loan business, where the Company provides dealers with inventory financing to facilitate the procurement and sale of vehicles to end customers.

In 2019, the changing international arena (including the Sino-US trade frictions), coupled with major policies and measures including changes to environmental standards and decreased incentives for new-energy vehicles in China, had brought significant impacts on the automobile industry. According to the China Association of Automobile Manufacturers, for 2019, the production and sales volume of passenger vehicles amounted to 25.721 million and 25.769 million units, representing a year-on-year decrease of 7.5% and 8.2%, respectively. However, the luxury vehicle market continued to expand swiftly. According to the statistics of China Automotive Dealers Association, the retail sales of luxury vehicles amounted to 3.13 million units, representing a year-on-year increase of over 12%. Sales contribution of luxury vehicles over total passenger vehicles is over 14%. Such increase is attributable to the fact that the luxury vehicle market continued to grow at a fast pace, as consumption upgrade drove the car replacement and first purchase of luxury vehicles, while efforts were made to launch promotions and reduce product prices.

As for the auto finance industry, automotive finance companies, as licensed institutions, are subject to the strict regulation of the CBIRC. By the end of 2019, there are 25 (2018: 25) licensed automotive finance companies in China, all of which are in competition with commercial banks, financial leasing companies and internet finance companies. Automotive finance companies demonstrate their significant advantages of being in close relationship with automobile manufacturers and dealers, as well as enhanced product offerings and service quality.

In 2019, the auto finance market became increasingly tightened under the strengthened management of the CBIRC and Ministry of Commerce of the PRC, including the rectification of business of non-licensed financial leasing companies and P2P-based internet auto finance companies; the suspension of non-compliant loan facilitations for auto finance with banks; and enhancement of measures on customers personal data protection. Despite difficulties and challenges brought to the auto finance industry in the short term, these measures will benefit the healthy and regulated development of the industry in the long run.

Although the overall domestic automobile production and sales volume continued to decline in 2019, the Company's loan portfolio increased by 19% to RMB10.00 billion as at 31 December 2019 from RMB8.43 billion as at 31 December 2018, owing to the Company's strategy of focusing on the luxury vehicle market.

In 2019, the Company's operating income amounted to RMB800 million, representing a decrease of 2% as compared to the operating income of RMB816 million in 2018. The Company recorded a net profit of RMB389 million in 2019, representing a decrease of 14% as compared to the net profit of RMB453 million in 2018, which was mainly due to the increase in our cost of funding resulting from the impact of the macro market environment during the reporting period and the decrease in net fee and commission income, notwithstanding the increase in interest income.

During the year, by capitalising on the advantages of 4S dealership channel under ZhengTong and its well-developed external dealer network, the Company extended its business network to nearly 200 middle to high-end 4S dealership stores, and more than 900 partnership-based dealers in more than 172 cities. In 2019, the Company is committed to optimize the dealer network by terminating the under-performing dealers and attracting new dealers. By focusing on sales to middle and high-end brands, these sales channels keep abreast with customers base of consumption upgrade demographic. The strengths of the sales network and reasonably established market presence enable the Company to introduce good user experience and services to the consumers.

		As at 31 December	
		2019	2018
Number of sales networks		**913**	1,280
Including:	ZhengTong dealers	**118**	113
	External dealers	**795**	1,167

The Company disbursed total 28,815 retail loans throughout 2019, representing a decrease of 31% over that of 2018. Among which, 21,946 are disbursed to ZhengTong clients and 6,869 are disbursed to external clients, with a total disbursed amount of RMB4.895 billion, representing a decrease of 31%, which was mainly due to the decrease in new loan amounts resulting from the strategic adjustment of the dealer network.

The Company's net fee and commission income mainly consist of non-interest income received by the Company for referral of retail customers to commercial banks or other financial institutions and provision of loan-related services. The Company's net fee and commission income in 2019 amounted to RMB174 million, representing a decrease of 47% as compared to that in 2018. This was mainly due to the lower income from consultancy services as a result of the adjustment made by the Company in its arrangements for collecting service fees from customers in response to changes in the market operating environment.

In terms of dealer loan business, as of 31 December 2019, the dealer loan balance of the Company was RMB2.63 billion, representing an increase of 196% as compared to that of 2018. For the year ended 31 December 2019, the Company's average yield of dealer loan increased from 7.65% to 9.75%. The Company's interest income from dealer loan increased from RMB40 million in 2018 to RMB180 million in 2019 due to the increase in loan size and yield.

		As at/For the year ended 31 December	
		2019	2018
Amount of loans disbursed *(RMB million)*		**13,984.08**	8,906.09
Number of self-operated retail loan disbursed		**28,815**	41,730
Including:	Standard self-operated loans	**20,902**	28,149
	Joint loans	**7,913**	13,581
Including:	ZhengTong customers	**21,946**	31,141
	External customers	**6,869**	10,589
Gross outstanding loan balance *(RMB million)* (before adjustment)		**10,147.44**	8,562.20
Including:	Retail loan	**7,522.35**	7,671.70
	Dealer loan	**2,625.09**	890.50

For the purposes of risk management, the Company has established a comprehensive risk management system. In particular, the Company has formulated relevant risk management system and operating procedures with respect to admission review, approval requirements, disbursement process, post-loan monitoring and other procedures to manage the credit risk. To constantly optimise risk management and prevent risks, we also enhance the capability to identify and assess risks by implementing measures related to staff training, screening mechanism, client visits, data analysis, etc.

In terms of loan quality, the Company's balance of non-performing loans as of 31 December 2019 was RMB45 million, representing an increase of 96% as compared to that of RMB23 million at the end of 2018. As of 31 December 2019, the Company's non-performing loan ratio was 0.44%, the loan provision rate was 1.89%, and the provision coverage ratio was 423.97%. The Company shall proactively monitor the status of customers and implement additional measures to enhance debt collection.

	As at 31 December	
	2019	2018
Non-performing loan (NPL) ratio (60+)	**0.44%**	0.27%
Loan provision rate	**1.89%**	1.59%
Provision coverage ratio	**423.97%**	582.29%

FINANCIAL REVIEW

Net Interest Income

The Company's net interest income increased by 22.1% to RMB536 million in 2019 from RMB439 million in 2018.

Set out below are the comparative figures for the year ended 31 December 2019 and 2018.

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest income		
Loans and advances to customers	**978,697**	745,070
Deposits with central bank and other banks	**13,620**	3,876
Finance lease receivables	**7,416**	10,089
	999,733	759,035
Interest expenses		
Placements from banks	**(463,800)**	(315,230)
Deposits from shareholders	**(133)**	(5,255)
	(463,933)	(320,485)
Net interest income	**535,800**	438,550

1. Interest income: As of 31 December 2019, the Company recorded an interest income of RMB1,000 million, representing an increase of 31.8% as compared to RMB759 million in the same period of 2018. The increase in interest income was mainly due to the increase in loan size, as well as an increase in the yield of dealer loans due to the market conditions. During the period, the average yield of retail loans was 9.78%, which remained stable as compared to 2018, while the average yield of dealer loans increased to 9.75% from 7.65% in 2018.

	For the year ended 31 December	
	2019	2018
	%	%
Net interest margin	**4.83**	5.48
Average yield of loans and advances to customers	**9.78**	9.78
Including: average yield of retail loans	**9.78**	9.92
average yield of dealer loans	**9.75**	7.65

2. Interest expenses: Interest expenses of the Company increased from RMB320 million in 2018 to RMB464 million in 2019, mainly due to the increase in borrowings and financing costs resulting from the increase in loan size. As of 31 December 2019, the Company's outstanding balance of placements from banks was RMB5.89 billion (2018: RMB6.09 billion), with average cost rate of interest-bearing liabilities of 6.56% (2018: 6.09%).

   The increase in financing costs was mainly due to the fact that most of the existing bank loans of the Company were drawn in 2018, with higher interest rates on withdrawals led by the tight funding in the overall interbank market in 2018. In 2019, the weighted average interest rate of the Company's new withdrawals was 6.08%.

	For the year ended 31 December	
	2019	2018
	%	%
Average cost of interest-bearing liabilities	**6.56**	6.09
Average cost of additional new interest-bearing liabilities	**6.08**	6.68

Non-interest Income

As at 31 December 2019, the Company received non-interest income of RMB264 million, representing a decrease of 30.0% as compared to that of RMB377 million for the same period of 2018.

1. Net fee and commission income: Net fee and commission income of the Company for 2019 was RMB174 million. Set forth below is a detailed breakdown:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Fee and commission income		
Consulting services	**91,615**	281,739
Joint loan services	**69,954**	46,990
Others	**13,387**	2,825
Sub-total	**174,956**	331,554
Fee and commission expenses		
Commission fees	**(221)**	(740)
Others	**(987)**	(685)
Sub-total	**(1,208)**	(1,425)
Net fee and commission income	**173,748**	330,129

The Company's net fee and commission income in 2019 amounted to RMB174 million, representing a decrease of 47.4% as compared to that in 2018. This was mainly due to the decrease in income from consultancy services as a result of the adjustment made by the Company in its arrangements for collecting service fees from customers in response to the changes in the market operating environment, including the limitation and restriction imposed on the fee income for auto finance services.

2. Other net income: in 2019, the Company's other net income amounted to RMB90 million (2018: RMB47 million), which comprised mainly of government grants of RMB51 million for the financial sector received from the People's Government of Pudong New District and foreign exchange gains of RMB39 million.

Operating Expenses

As of 31 December 2019, the Company's operating expenses amounted to RMB164 million in total, representing an increase of RMB36 million as compared to RMB128 million for the same period of 2018, which was mainly due to the increase in labor costs incurred in business expansion and expenses arising from listing on the Stock Exchange.

Impairment Loss

The Company has adopted the HKFRS 9 Expected Credit Loss Model to categorise the risk assets of the Company into three stages. In 2019, the total impairment loss amounted to RMB115 million (2018: RMB84 million), representing an increase of 36.9% as compared to 2018, which was mainly due to the increase in loan size. For details, please refer to the table set out below:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loans and advances to customers	**118,183**	73,211
Deposits with banks	**–**	(135)
Finance lease receivables	**(3,630)**	11,267
Total	**114,553**	84,343

Net Profit

For the year ended 31 December 2019, the Company achieved a net profit of RMB389 million, representing a decrease of RMB64 million as compared to RMB453 million for same period in 2018.

Cash and Deposits with Central Bank

As at 31 December 2019, the Company's cash and deposits with central bank amounted to RMB9 million (2018: RMB35 million), representing a decrease of 74.3% as compared to 2018. The deposits with central bank mainly comprise statutory deposit reserves and surplus deposit reserves. In accordance with the rules set by the People's Bank of China, the Company deposited 6% of the guarantee deposits and deposits from shareholders to the statutory deposit reserves. The decrease in balance is due to the decrease in deposits from shareholders and reduction of statutory deposit reserve ratios from 7% to 6% during the year.

Deposits with Banks

As at 31 December 2019, deposits with banks amounted to RMB127 million, representing a decrease of 83.7% as compared to RMB781 million as at 31 December 2018. The significant decrease was mainly attributable to partial repayment of placements from banks by the Company before the end of the year and the relatively tight domestic capital market at the end of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Loans and Advances to Customers

As of 31 December 2019, net loans and advances to customers amounted to RMB10.00 billion, representing an increase of 18.7% as compared to RMB8.43 billion at the end of 2018. The Company's loan business mainly comprises retail loan business and dealer loan business, among which, the gross balance of retail loans amounted to RMB7.52 billion, representing a decrease of 2% as compared to RMB7.67 billion at the end of 2018, while the gross balance of dealer loans amounted to RMB2.63 billion, representing an increase of 195.5% as compared to RMB0.89 billion as at 31 December 2018.

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Retail loans	**7,522,352**	7,671,650
Dealer's loans	**2,625,086**	890,506
Gross loans and advances to customers	**10,147,438**	8,562,156
Accrued interest	**48,079**	—
Less: allowances for impairment loss	**(191,364)**	(135,979)
Net loans and advances to customers	**10,004,153**	8,426,177

Placements from Banks

The Company's placements from banks as of 31 December 2019 was RMB5.89 billion, representing a decrease of 3.3% as compared to RMB6.09 billion for 2018, which was mainly due to partial repayment of placements from banks by the Company before the end of the year.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity requirements are mainly satisfied by share capital, placements from commercial banks and proceeds from loan products and services. The Company successfully completed its initial public offering on the Stock Exchange and raised net proceeds of RMB1.37 billion in April 2019, which increased the total share capital to RMB2.14 billion and provided strong financial support to the Company's self-operated retail loans business. As of 31 December 2019, the Company's deposits with banks amounted to RMB127 million, representing a decrease of 83.7% as compared to RMB780 million as at the end of 2018. The Company's placements from banks amounted to RMB5.89 billion, representing a decrease of 3.3% as compared to RMB6.09 billion as at the end of 2018. The Company established co-operations with a total of 43 banks, with total facilities of over RMB10.4 billion and an unutilised balance of over RMB4.5 billion.

The Company's capital adequacy ratio increased from 31.26% at the end of 2018 to 41.62% at the end of 2019.

	As at 31 December	
	2019	2018
Core tier-one capital adequacy ratio	**40.54%**	30.18%
Tier-one capital adequacy ratio	**40.54%**	30.18%
Capital adequacy ratio	**41.62%**	31.26%
Liquidity ratio	**137.12%**	1,180.02%
Leverage ratio	**37.90%**	25.77%

Note: Leverage ratio = Net tier-one capital/(balance of adjusted on-balance sheet assets + adjusted off-balance sheet items)* 100%.

FOREIGN EXCHANGE RISK

As the Company's business is primarily operated in mainland China and settled in Renminbi, there is no material foreign exchange risks. As at 31 December 2019, the Company had certain deposits with banks and other liabilities denominated in foreign currencies with a net position of approximately RMB12 million. The foreign exchange risk is considered to be low.

MATERIAL ACQUISITION OR DISPOSAL OF ASSETS

During the year ended 31 December 2019, there was no material acquisition and disposal of the Company's material assets.

SIGNIFICANT INVESTMENT

As at 31 December 2019, the Company did not hold any significant investment in equity interest in any company.

CHARGES ON ASSETS

As at 31 December 2019, there were no charges on the Company's assets.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2019, the Company did not have any plans for material investments and capital assets.

HUMAN RESOURCES AND REMUNERATION POLICIES

As of 31 December 2019, the Company had 303 employees in total, and most of the employees were located in the PRC. The Company has a team of highly educated and talented individuals. As of 31 December 2019, approximately 96.4% of the Company's employees hold a bachelor's degrees or above, and 14.5% hold a master's degree or above, with approximately 68% of the Company's employees under the age of 35. In 2019, total staff costs of the Company amounted to approximately RMB98 million (2018: RMB76 million).

The Company endeavored to create a competitive and fair system for compensation and welfare, by adjusting employees' remuneration and benefits based on their business performance on an annual basis. The Company has been constantly improving its policies on remuneration and incentives and has also refined the long-term incentive scheme for employees and optimized the remuneration structure thereof to link employees' benefits to the overall business operation, for the purpose of enhancing employees' loyalty.

Apart from taking into account the advice from the Remuneration Committee and the market levels, the Company also considers the respective competency, contributions and the responsibilities towards the Company in determining the level of remuneration for the Directors.

SIGNIFICANT LITIGATION AND ARBITRATION

During the year ended 31 December 2019, there was no litigation and arbitration which had a significant impact on the operating activities of the Company.

CONTINGENT LIABILITIES

The Company did not have any material contingent liabilities as at 31 December 2019.

CORPORATE DEVELOPMENT STRATEGY AND OUTLOOK

Under the influence of changing market conditions, increasingly tightened regulative environment for financial industries and the outbreak of the novel coronavirus pandemic (COVID-19), 2020 would be a year full of challenges to the Company. To tackle such challenges, the Company will proactively implement several measures. On the one hand, the Company will keep a close watch on state-level policies in relation to economic revitalisation, especially those promoting purchase of vehicles as well as automobile-related products, so as to translate the policies into concrete driving forces for the growth of the Company. On the other hand, the Company will stick to its business strategy of seeking progressive development while maintaining stable business operations and striving to improve on both business expansion and risk management while maintaining compliance in operation, so as to ensure the sustainable development of the Company.

As for business expansion, on top of leveraging its cooperation with a network of more than 900 dealers, the Company will remain committed to identifying quality dealers and expanding its sales network, so as to drive the growth of new vehicle finance business. Meanwhile, the Company will actively expand into automobile finance business in such fields as used-car, thus laying a solid foundation for its future growth.

As for capital resources, with its successful listing on the Stock Exchange, the Company's comprehensive strength has been further enhanced. By leveraging its status as a listed company and a CBIRC licensed corporation, the Company will explore financing channels in the domestic and overseas markets, including inter-bank financing, syndicated loans, asset securitization, financial bonds, and cross-border financing. Meanwhile, the Company will strive to reduce its finance costs and enhance its capital base.

The Company will strengthen the employment of technology and promote its WeChat mini-program and official public account to enhance consumer loyalty, better serve existing and potential customers and enhance brand awareness. In the meantime, the Company will further improve its risk management and reduce the operating costs of post-loan management by using big data analysis, credit information system and automated approval system.

The Company is confident that by leveraging on its extensive sales network, broad range of financing channels and professional risk management, the Company can offer to its customers comprehensive financial services covering purchase, use and replacement of vehicles, while creating value for the Shareholders.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Lin Fan, aged 53, is an executive Director and the chairman of the Board. He is also the chairman of the Risk Management Committee. He joined the Company in February 2017 and is responsible for the overall strategic planning and business direction and management of the Company.

Mr. Lin has over 30 years' experience in the finance industry. From July 1988 to September 2015, Mr. Lin successively served in several managing positions with business and finance functions in Hubei and Sanxia branches, and the headquarters of China Construction Bank ("CCB"), including a vice president of the Hubei branch of CCB, the president of the Sanxia branch of CCB. From November 2015 to February 2017, he served as the vice chairman of the board of Shenzhen Han De Chuang Ke Finance Investment Co., Ltd. (深圳瀚德創客金融投資有限公司), a finance technology company. Mr. Lin received a bachelor's degree in finance and accounting from Zhongnan University of Economics and Law, formerly known as Zhongnan University of Economics), and a bachelor's degree in economic law from Wuhan University. He also received a doctoral graduate degree in national economics from Zhongnan University of Economics and Law. Mr. Lin was accredited as a senior accountant by CCB.

Mr. Shao Yongjun, aged 44, is an executive Director and a member of the Risk Management Committee. He joined the Company in March 2015 and is responsible for the overall strategic planning and business direction and management of the Company.

Mr. Shao has over 15 years' experience in management. Prior to joining the Company, Mr. Shao has served as the vice president and an executive director of ZhengTong responsible for its investor relations and auto financing business from July 2011 to April 2019. Mr. Shao received a bachelor's degree with a major in accounting from Shenzhen University and an executive master of business administration degree from Shanghai Jiao Tong University. He previously worked as an auditor of KPMG China, the general manager of Shenzhen Zhao Hong Yuan Technology Co., Ltd. (深圳市兆鴻源科技有限公司) and the vice president of Hua Xiang Group (華祥集團), a real property developing and investing company.

NON-EXECUTIVE DIRECTORS

Mr. Koh Tee Choong, aged 61, joined the Company as a non-executive Director in August 2018. Mr. Koh is a member of the Remuneration Committee and Nomination Committee. He is also an executive director and chief executive officer of ZhengTong.

Mr. Koh has extensive operational and management experience in the luxury-brand dealership market. Prior to joining ZhengTong in January 2017, Mr. Koh served at BMW Asia Pte Ltd and was the president of BMW China Automotive Trading Ltd. (寶馬(中國)汽車貿易有限公司) to head up BMW China business. Mr. Koh received a diploma in business studies in November 1984 and a graduate diploma in marketing management in June 1986 from the Singapore Institute of Management. Mr. Koh received a master's degree in Business Administration from the University of Durham in December 1991 through distant learning. Mr. Koh also obtained a diploma in marketing from The Institute of Marketing in November 1986.

Mr. Li Guozhou, aged 54, joined the Company as a non-executive Director in September 2019.

Mr. Li has extensive accounting and management experience in the automobile manufacturing industry, including acting as the general manager of Dongfeng Peugeot Citroën Automobile Finance Co., Ltd. (東風標緻雪鐵龍汽車金融有限公司) and a deputy general manager of business and a member of the executive committee of Dongfeng Peugeot Citroën Automobile Co., Ltd. (神龍汽車有限公司). Mr. Li has served as a treasury manager of finance and accounting department of Dongfeng Motor Corporation (東風汽車集團有限公司), a Shareholder, since December 2018. Mr. Li received a bachelor's degree in computer science and engineering from Southeast University (東南大學, formerly known as Nanjing College of Technology (南京工學院)) in July 1987. Mr. Li has also been recognized as a senior accountant by Dongfeng Motor Human Resources Department (東風汽車公司人事部). Mr. Li was previously a lecturer at Wuhan University of Technology (formerly known as Wuhan Jiaotong Technology University (武漢交通科技大學)).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Man Chung Francis, aged 55, joined the Company in February 2020 as an independent non-executive Director. Mr. Wong is the chairman of the Audit Committee, member of the Remuneration Committee and the Risk Management Committee.

He is currently a non-executive chairman of Union Alpha C.P.A. Limited, a non-executive director of Union Alpha CAAP Certified Public Accountants Limited, and a founding director and member of Francis M. C. Wong Charitable Foundation Limited. Mr. Wong holds a master's degree in management from Jinan University (暨南大學) in the PRC. He is also a fellow member of the Association of Chartered Certified Accountants of the United Kingdom, the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales and the Society of Chinese Accountants and Auditors, and a Certified Tax Advisor of the Taxation Institute of Hong Kong. He is a practising certified public accountant and has over 30 years of experience in auditing, taxation, corporate internal control and governance, acquisition and financial advisory, corporate restructuring or liquidation, family trust and wealth management. Mr. Wong is currently an independent non-executive director of the following companies listed on the Stock Exchange: Qeeka Home (Cayman) Inc. (stock code: 1739); Hilong Holding Limited (stock code: 1623); GCL-Poly Energy Holdings Limited (stock code: 3800); Greenheart Group Limited (stock code: 94); Integrated Waste Solutions Group Holdings Limited (stock code: 923); Wai Kee Holdings Limited (stock code: 610); Digital China Holdings Limited (stock code: 861), China Oriental Group Company Limited (stock code: 581) and IntelliCentrics Global Holdings Ltd. (stock code: 6819). During the period from June 2016 to August 2018 and from March 2017 to December 2019, he served as an independent non-executive director of Kunming Dianchi Water Treatment Co., Ltd (stock code: 3768) and China New Higher Education Group Limited (stock code: 2001) respectively.

Mr. Lin Zheying, aged 55, joined the Company as an independent non-executive Director in August 2018. Mr. Lin is the chairman of the Remuneration Committee and the Nomination Committee, and a member of the Audit Committee.

Mr. Lin is currently the vice chairman of S.F. Holding Co., Ltd. (順豐控股股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 002352) and an executive director of Ancient Jade Capital Management Co., Ltd. (古玉資本管理有限公司), an investment management company. Mr. Lin has extensive management experience and served various management positions. From 2005 to 2010, he served as a deputy director in the Department of Foreign Investment Administration of the Ministry of Commerce of the PRC in charge of foreign investment and trade services. Mr. Lin has also served as an executive director of HanKore Environment Tech Group Limited (漢科環境科技集團有限公司), a director of Shenzhen Fengchao Technology Limited (深圳市豐巢科技有限公司), a vice chairman of S.F. Holdings (Group) Co. Ltd. (深圳順豐泰森控股(集團)有限公司). From February 2013 to March 2015, he served as an executive director of C Y Foundation Group Ltd. which is listed on the Stock Exchange (stock code: 1182, now known as Success Dragon International Holdings Limited). Mr. Lin received a bachelor's degree with a major in planning statistics from Shanxi College of Finance and Economics (山西財經學院, currently known as Shanxi University of Finance and Economics) a master's degree in business administration from Guanghua School of Management, Peking University, and a doctoral degree in business administration from ESC Rennes School of Business.

Ms. Liang Yanjun, aged 36, joined the Company as an independent non-executive Director in August 2018. Ms. Liang is a member of the Audit Committee and the Nomination Committee.

Ms. Liang is currently a partner at Javy Tayn Lawyers (嘉維泰銀律師事務所), a law firm in the PRC. Ms. Liang is well experienced in legal practice. She has previously practiced as a lawyer with various law firms in the PRC including Jingtian & Gongcheng (北京市競天公誠律師事務所), Beijing Maode Law Firm (北京懋德律師事務所) and B&D Law Firm (北斗鼎銘律師事務所). Ms. Liang received a law degree from China University of Political Science and Law (中國政法大學) in China and received her lawyer's practicing certificate granted by the Ministry of Justice of the PRC. She is also an independent non-executive director of Fu Shou Yuan International Group Limited, a company listed on the Stock Exchange (stock code: 1448).

SUPERVISORS

Mr. Li Huihua, aged 47, was appointed as a Supervisor in March 2016, and became the chairman of the Supervisory Committee in May 2018.

Mr. Li has nearly 16 years of experience in financing and auditing. He joined ZhengTong in November 2012 as the general manager of the audit department. He has previously served as an auditor of Skyworth Group Co., Ltd (創維集團有限公司), and in the audit department and internal control department of Shenzhen SCAS Investment Group Co., Ltd (深圳市中汽南方投資集團有限公司). Mr. Li received a bachelor's degree in industrial management engineering from Hunan University. He was awarded as an accountant by the Ministry of Finance of the PRC and as a certified public accountant (non-practicing member) by the Chinese Institute of Certified Public Accountants.

Mr. Li Tao, aged 50, was appointed as a Supervisor in May 2018.

Mr. Li has over 22 years of legal experience. Mr. Li was the general manager of the legal department of ZhengTong between August 2016 and February 2020. From September 1996 to July 2016, Mr. Li was the president of the civil court in Higher People's Court. Mr. Li received a bachelor's degree in economics law from Wuhan University (武漢大學) in July 1996 and a master's degree in law from Wuhan University (武漢大學) in February 2003.

Ms. Wang Qing, aged 30, was appointed as the employee representative Supervisor in May 2018. She joined the Company as the senior legal officer in April 2016.

Prior to joining the Company, Ms. Wang worked at the Shanghai Branch of Ping An Data Technology (Shenzhen) Co., Ltd. (平安數據科技(深圳)有限公司上海分公司) and Sunshine P&C Insurance Co., Ltd. (陽光財產保險股份有限公司). Ms. Wang received from Shanghai University a bachelor's degree in law in 2012 and a master's degree in law in 2019.

SENIOR MANAGEMENT

Mr. Li Yi, aged 46, joined the Company as the president in May 2017. Mr. Li is responsible for the overall business operations and management of the Company.

Mr. Li has over 15 years of dealership and auto finance experience. Mr. Li joined ZhengTong in February 2004 and served as an executive director from November 2015 to March 2017. He was responsible for the establishment of the Company and has been closely involved in the operations and strategic planning of the Company's business. Prior to joining ZhengTong, Mr. Li served as the general manager of Hubei Xinrui Automobile Sales and Service Co., Ltd. (湖北欣瑞汽車銷售服務有限公司) and the general manager of Hubei Dingjie Automobile Sales and Service Co., Ltd. (湖北鼎傑汽車銷售服務有限公司).

Mr. Li received his bachelor's degree in automobile from Wuhan Automobile Polytechnic University (武漢汽車工業大學, currently known as Wuhan Science and Technology University). Since March 2013, Mr. Li has been the vice president of the China Auto Dealers Chamber of Commerce (全國工商聯汽車經銷商商會).

Ms. Yao Wen, aged 48, is a joint company secretary, secretary to the Board and chief risk management officer of the Company. She joined the Company in September 2015. Ms. Yao is responsible for the overall risk management and the daily work of the Board.

Between July 1992 and February 2012, Ms. Yao served various management roles including credit planning and risk management departments of the Hubei branch of Bank of China, vice president of the Xiangfan branch of Bank of China and vice president of the Hubei branch of Bank of China. From February 2012 to July 2015, Ms. Yao served as the president of inspection and supervision department of the Wuhan branch of Ping An Bank and was responsible for monitoring the Wuhan branch on behalf of the head office of Ping An Bank.

Ms. Yao received a qualification certificate of the secretary to the Board in November 2012 from the Shenzhen Stock Exchange and was qualified as a senior accountant by Hubei Vocational Title Reform Leading Group Office (湖北省職稱改革辦公室) in June 2004. Ms. Yao obtained a bachelor's degree in finance and a master's degree in economics from Zhongnan University of Economics and Law, and a doctoral graduate degree in industrial economics from Wuhan University.

Mr. Xu Shuo, aged 47, joined the Company in August 2017 and is the chief information officer of the Company. Mr. Xu is responsible for the information system management and technology risk management of the Company.

Mr. Xu has over 15 years of experience in the information system and technology sector. Mr. Xu has served in various technology companies including International Business Machine (China) Co., Ltd.* (國際商業機器(中國)有限公司), PTC (NASDAQ: PTC) in China, and Oracle (China) Software System Co., Ltd. (甲骨文(中國)軟件系統有限公司). Mr. Xu received a bachelor's degree in fluid transmission and control from Shanghai Jiao Tong University and a master's degree in business administration from National School of Development at Peking University and Vlerick Leuven Gent Management School (currently known as Vlerick Business School).

Mr. Liu Jun, aged 50, joined the Company in October 2018 as a vice president. Mr. Liu is responsible for the marketing, sales and operations of the Company.

Mr. Liu has extensive experience in the automotive finance industry. From April 2004 to December 2006, Mr. Liu worked at Toyota Motor Finance (China) Co., Ltd., where he was responsible for the national marketing and sales operation. From January 2007 to February 2014, Mr. Liu worked at BMW Automotive Finance (China) Co., Ltd. as director of development department and director of marketing and sales department successively, where he was responsible for its marketing and sales operations. He also served as a vice president of automotive finance in the Greater China Region at Jaguar Land Rover (China) Investment Co., Ltd. between April 2015 and August 2016. Mr. Liu received a bachelor's degree in business administration from Brock University in Canada.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Company comprise (i) retail loan business, where the Company provides retail loans, direct leasing products and other financial services to the end customers, major customers and corporate clients who wish to purchase vehicles; and (ii) dealer loan business, where the Company provides dealers with inventory financing to facilitate the procurement and sale of vehicles to end customers.

RESULTS

The Company's results for the year ended 31 December 2019 and financial position as at 31 December 2019 are set out in pages 49 to 50 of this annual report.

BUSINESS REVIEW

Business performance, financial review, business review as well as prospects and strategies of the Company are set out in the section headed "Management Discussion and Analysis". Certain key financial indicators are provided in the section headed "Four Year Financial Summary".

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Company for the past four years is set out in the section headed "Four Year Financial Summary".

PLACEMENTS FROM BANKS

Details of the placements from banks of the Company are set out in note 18 to the financial statements.

PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Company during 2019 are set out in note 15 to the financial statements.

SHARE CAPITAL

As at 31 December 2019, the aggregate share capital of the Company was RMB2,139,651,400, divided into 2,139,651,400 ordinary shares of the Company at RMB1 each, including 539,651,400 H Shares, 80,000,000 Domestic Shares and 1,520,000,000 Unlisted Foreign Shares.

During the year ended 31 December 2019, the Company has been listed on the Main Board of the Stock Exchange and issued 539,651,400 H Shares. Details of movements in share capital during 2019 are out in the statement of changes in equity and note 24 to the financial statements.

RESERVES

Details of movements in reserves of the Company during 2019 are set out in the statement of changes in equity and note 24 to the financial statements.

As at 31 December 2019, distributable reserves of the Company, as calculated in accordance with the PRC rules and regulations, amounted to RMB455,828 thousand.

DIVIDEND

An interim dividend of RMB0.08 per Share (tax inclusive) has been approved by the Shareholders at the 2019 third extraordinary general meeting of the Company held on 21 October 2019 and paid on 29 November 2019.

The Board did not recommend the payment of final dividend for the year ended 31 December 2019.

There is no arrangement that a Shareholder has waived or agreed to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of H Shareholders who will be entitled to attend and vote at the annual general meeting, the Company's H shares register of members will be closed from Monday, 11 May 2020 to Wednesday, 10 June 2020 (both days inclusive), during which period no transfer of H Shares will be effected. In order for the H Shareholders to qualify for attending and voting at the annual general meeting, Shareholders whose H Shares are not registered in their names should complete and lodge their respective instruments of transfer with the relevant H Share certificates with Computershare Hong Kong Investor Services Limited, the Company's H Share registrar in Hong Kong, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in any case no later than 4:30 p.m. on Friday, 8 May 2020.

RETIREMENT BENEFITS

Details of retirement benefits schemes of the Company are set out in note 6 to the financial statements. The Company made contributions to the retirement benefits scheme organised by the PRC municipal government and the mandatory provident fund ("MPF") scheme set up under the Mandatory Provident Fund Schemes Ordinance for its qualified employees in the PRC and Hong Kong respectively.

Under the retirement benefits scheme organised by the PRC municipal government, the Company is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

For qualified employees in Hong Kong, the assets of the MPF scheme in Hong Kong are held separately from those of the Company in funds under the control of an independent trustee. Contributions under the MPF scheme are made based on a percentage of the participating employees' relevant income from the Company and are charged to the profit or loss as they become payable in accordance with the rules of the MPF scheme. The only obligation of the Company with respect to the MPF scheme is to make the required contributions. When an employee leaves the MPF scheme, the mandatory contributions are fully vested with the employee.

USE OF PROCEEDS

The Shares were listed on the Stock Exchange on 3 April 2019. The net proceeds from the Global Offering (including the exercise of the over-allotment option) amounted to HK$1,552.3 million (approximately RMB1,368.96 million). There was no change in the intended use of net proceeds as previously disclosed in the supplemental prospectus dated 25 March 2019 of the Company. As at 31 December 2019, the Company had utilised the proceeds as follows:

Use of net proceeds	Net proceeds from the Global Offering (RMB million)	Utilisation as of 31 December 2019 (RMB million)	Unutilised amount (RMB million)
Fund the self-operated retail loans to be disbursed to external customers	889.83	889.83	—
Develop network of external dealers	68.45	24.03	44.42
Fund self-operated retail loans to be disbursed to ZhengTong customers	205.34	205.34	—
Develop technological, operational and risk management capabilities	68.45	12.72	55.73
General working capital	136.90	136.90	—
Total	1,368.96	1,268.81	100.15

The unutilized amount of approximately RMB100.15 million was placed in bank deposits with banks in the PRC and Hong Kong.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the revenue attributable to the five largest customers accounted for no more than 30% of the Company's revenue for the year. Due to the nature of the Company's business, the disclosure relating to major suppliers is not applicable.

DIRECTORS AND SUPERVISORS OF THE COMPANY

The Directors and Supervisors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Lin Fan *(Chairman)*
Mr. Shao Yongjun

Non-executive Directors

Mr. Koh Tee Choong
Mr. Li Guozhou (appointed on 23 September 2019)
Mr. Yin Yaoliang (resigned on 23 September 2019)

Independent Non-executive Directors

Mr. Wong Man Chung Francis (appointed on 24 February 2020)
Mr. Lin Zheying
Ms. Liang Yanjun
Mr. Lau Wai Leung Anders (appointed on 8 March 2019 and resigned on 31 December 2019)
Dr. Bao Xiaoli (resigned on 8 March 2019)

Supervisors

Mr. Li Huihua *(Chairman)*
Mr. Li Tao
Ms. Wang Qing

The biographical information of the Directors and Supervisors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this annual report.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As at 31 December 2019, none of the Directors, Supervisors, chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be entered in the register required to be kept under section 352 of the Securities and Futures Ordinance, or were required to be notified to the Company and the Stock Exchange of Hong Kong under the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code").

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2019, the interests or short positions of the other persons (other than Directors, Supervisors, and the chief executive of the Company) in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

Name of Substantial Shareholder	Class of Shares	Long/Short positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued ordinary Shares (%)
China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司)	Unlisted Foreign Shares	Long	Beneficial owner[1]	1,520,000,000	100.00	71.04
Joy Capital Holdings Limited	Unlisted Foreign Shares	Long	Interest in a controlled corporation[2]	1,520,000,000	100.00	71.04
Wang Muqing (王木清)	Unlisted Foreign Shares	Long	Founder of trusts[3]	1,520,000,000	100.00	71.04
Wang Weize (王偉澤)	Unlisted Foreign Shares	Long	Founder of trusts[3]	1,520,000,000	100.00	71.04
Dongfeng Motor Corporation (東風汽車集團有限公司)	Domestic Shares	Long	Beneficial owner	80,000,000	100.00	3.74
Global Precise Assets Limited	H Shares	Long	Beneficial owner	80,000,400	14.82	3.74
TX Capital (HK) Limited	H Shares	Long	Investment manager[4]	44,948,000	8.33	2.10
Seahawk China Dynamic Fund	H Shares	Long	Beneficial owner	33,335,000	6.18	1.56

Notes:

1. These 1,520,000,000 Shares were registered in the name of and beneficially owned by China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司).

2. China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司) is owned by Joy Capital Holdings Limited as to 56.42% and Joy Capital Holdings Limited is deemed under the SFO to be interested in the Shares held by China ZhengTong Auto Services Holdings Limited.

3. Mr. Wang Muqing and Mr. Wang Weize were the founders of the family trusts that own all the issued shares of Joy Capital Holdings Limited, which were deemed under the SFO to be interested in the Shares held by Joy Capital Holdings Limited. Credit Suisse Trust Limited in Guernsey is the trustee of these family trusts. The Wang family members are discretionary beneficiaries of these trusts.

4. According to the disclosure of interests form filed by TX Capital (HK) Limited dated 31 July 2019, TX Capital (HK) Limited held 44,948,000 H Shares in the capacity as an investment advisor to TX Capital Value Fund. Accordingly, it is deemed to be interested in the H shares of the Company held by TX Capital Value Fund.

Save as disclosed above, as at 31 December 2019, the Directors are not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) having any interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register required to be kept pursuant to section 336 of the SFO.

CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers they are independent.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATIONS

As at December 31, 2019, none of the Directors nor Supervisors had entered into a service contract with the Company which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Details of remunerations for the Directors and Supervisors for the year ended 31 December 2019 are set out in note 8 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director or Supervisor of the Company or entity connected with the Directors or Supervisors had a material interest, directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company to which the Company was a party during 2019.

CONTRACTS OF SIGNIFICANCE BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE SUBSIDIARIES

The particulars of the contracts of significance between the Company and ZhengTong or its subsidiaries or the contracts of significance for the provision of services to the Company by ZhengTong or its subsidiaries are set out under section headed "Continuing Connected Transactions" in this annual report.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

At no time during 2019 was the right to acquire benefits by means of acquisition of shares or debentures of the Company granted to or exercised by any Directors, Supervisors or their respective spouse or minor children, nor was the Company, or any of its subsidiaries, a party to any arrangement which enables the Directors or Supervisors to acquire such rights in any other legal entity.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

None of the Directors, Supervisors, nor their associates own any interests in businesses which compete or are likely to compete with the businesses of the Company nor have other interest that conflicts with the Company.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2019, the continuing connected transactions between the Company and ZhengTong and its associates (as defined under the Listing Rules) were as follows:

(i) Administrative Cost Reimbursement Framework Agreement

Date:	1 March 2019
Parties:	(1) The Company (2) ZhengTong
Objective:	The Company would reimburse the administrative cost that may be incurred by ZhengTong dealers in assisting the Company with administrative tasks. Such costs primarily include, among others, labor fee, printing fee, postage fee, telephone fee and transportation fee, and arise in instances where ZhengTong dealers provide assistance to the Company in relation to the provision of retail loans.
Term:	From the Listing Date to 31 December 2021, subject to early termination by mutual agreement of the parties.
Pricing:	The administrative cost incurred by ZhengTong dealers are reimbursed by the Company on an as-incurred basis and in compliance with any applicable guiding standards set by the relevant authorities.

The proposed annual cap for the administrative cost reimbursement for the year 2019 is RMB15 million. For the year ended 31 December 2019, the actual transaction amount was RMB3.6 million.

(ii) Revolving Loan Facility Framework Agreement

Date:	1 March 2019
Parties:	(1) The Company (2) ZhengTong
Objective:	The Company has been providing dealer financing loans to certain dealers, which is common practice for AFCs in the PRC. The dealer network includes ZhengTong dealers and external dealers. Pursuant to the Revolving Loan Facility Framework Agreement, the Company agreed to provide revolving loan facility to ZhengTong dealers to facilitate their purchase of cars.
Term:	From the Listing Date to 31 December 2021, subject to early termination by mutual agreement of the parties.
Pricing:	The interest rates for the loans shall be determined by reference to the interest rate published by the People's Bank of China ("PBOC") for a similar type of loan plus a mark-up rate in line with the market practice ranging from 49.4% to 95.4% of the interest rate published by the PBOC. The Company may also adjust the interest rates to comply with any applicable guiding standards (if any) set by the relevant authorities (e.g. the PBOC and CBIRC).

The proposed annual cap for the outstanding loan balance to be provided by the Company to ZhengTong for the year 2019 is RMB1,500 million. For the year ended 31 December 2019, the actual maximum outstanding loan balance was RMB1,495.67 million. The proposed annual cap for the interest income for the year 2019 is RMB128 million. For the year ended 31 December 2019, the actual interest income was RMB119.08 million.

(iii) Joint Promotion Framework Agreement

Date:	1 March 2019
Parties:	(1) The Company (2) ZhengTong
Objective:	The Company entered into joint promotion arrangements with ZhengTong dealers to promote the sale of specific car models. Under such arrangements, the ZhengTong dealers offered interest subsidies to their customers who get their financing from the Company for purchasing the specific car models under promotion. The Company would directly deduct the interest subsidies from the loan amount and recorded as deferred income, which is to be recorded and amortized in interest income during the loan tenor.
Term:	From the Listing Date to 31 December 2021, subject to early termination by mutual agreement of the parties.
Pricing:	The interest rate the Company charged under the joint promotion arrangements was the same as the standard interest rate. The interest revenue recognized has been pre-determined in accordance with the interest subsidies provided by ZhengTong dealers to end customers when the Company disbursed the retail loans under the joint promotion arrangement.

The proposed annual cap for the interest income recognized from the interest subsidies provided by ZhengTong dealers for the year 2019 is RMB67 million. For the year ended 31 December 2019, the actual interest income was RMB66.5 million.

In the opinion of the independent non-executive Directors, the non-exempt continuing connected transactions entered into by the Company were:

(i) in the ordinary and usual course of its business;

(ii) on normal commercial terms or better; and

(iii) according to the agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged KPMG, its independent external auditor, to perform certain procedures in respect of the continuing connected transactions undertaken by the Company for the year ended 31 December 2019. KPMG has confirmed that nothing has come to their attention that causes them to believe the continuing connected transactions:

(i) have not been approved by the Board of Directors;

(ii) were not, in all material respects, in accordance with the pricing policies of the Company as stated in this annual report;

(iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(iv) have exceeded the respective proposed annual caps.

Save as disclosed above, the material related party transactions that did not constitute non-exempt connected transactions under the Listing Rules made during the year were disclosed in note 28 to the financial statements.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC.

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

During the period from the Listing Date up to and including 31 December 2019, the Company did not purchase, sell or redeem any of the Company's listed securities.

COMPLIANCE WITH NON-COMPETITION AGREEMENT

The independent non-executive Directors, having considered the written confirmations from the Controlling Shareholders, are of the view that during the period from 1 March 2019 (date of execution of non-competition undertaking) up to and including 31 December 2019, the Controlling Shareholders had complied with non-competition undertaking to the Company.

PERMITTED INDEMNITY PROVISION

During the period from the Listing Date to 31 December 2019 and as at date of approval of this report, the Company has arranged appropriate directors' and officers' liability insurance cover in respect of losses or liabilities which may be sustained or incurred by the Directors in the execution of the duties of his/her office or otherwise in relation thereto.

IMPORTANT EVENT AFTER THE REPORTING PERIOD

The wide spread of the novel coronavirus pandemic (COVID-19) has become a volatile and challenging situation confronted by all stakeholders of the society. After the reporting period, the outbreak of the coronavirus has been declared a pandemic by the World Health Organization. If the outbreak continues, it may impose negative impacts on the Company's results, including but not limited to the Company's interest, fee and commission income. As at the date of this report, as the outbreak is still evolving, the Directors consider that it is impracticable to estimate the financial impact to the Company. The Board will continue to assess the impact of the outbreak on the Company's operation and financial performance, and closely monitor the Company's exposure to the risks and uncertainties in connection with the outbreak.

CORPORATE GOVERNANCE

During the period from the Listing Date and up to 31 December 2019, the Company has complied with all code provisions of the Corporate Governance Code. Details are set out in the section headed "Corporate Governance Report".

AUDITOR

KPMG will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

SUFFICIENCY OF PUBLIC FLOAT

On the basis of publicly available information and to the best knowledge of the Company and its directors, more than 25% of the Company's total issued share capital is held by the public (as defined under the Listing Rules) during the period from the Listing Date to 31 December 2019.

By order of the Board

LIN Fan
Chairman

27 March 2020

REPORT OF THE SUPERVISORY COMMITTEE

In 2019, the supervisory committee of the Company (the "Supervisory Committee") conscientiously performed its supervisory and other duties, and honored its commitments to supervise and manage in strict compliance with the Articles of Association. This ensured a sound and stable development of the Company, as well as safeguarded the legal interests of the Shareholders as a whole. By inspecting relevant documents and information of the Company, financial reports, as well as attending Board meetings and the Shareholders' general meetings, the Supervisory Committee effectively supervised the operation status, financial positions, connected transactions and internal control of the Company. During the reporting period, the Supervisory Committee formed independent opinions of such matters of the Company as follows:

I. PERFORMANCE OF THE SUPERVISORY COMMITTEE

In 2019, the Supervisory Committee held two meetings. The number of Supervisors in attendance formed sufficient quorums of the meetings in accordance with statutory requirement.

The first meeting of the Supervisory Committee reviewed and approved: the annual work report of the Company for 2018 and the 2019 business plan, the 2018 external audit report, the 2018 profit distribution proposal, the 2018 internal audit report and the 2019 internal audit plan, the 2019 annual financial budget and the 2018 annual financial statements, the comprehensive risk management report for 2018, the 2019 indicators of risk tolerance and risk preference, the annual performance assessment plan for 2019, and the 2018 report of the Supervisory Committee and the authorization of the Supervisory Committee to fix the Supervisors' remuneration.

The second meeting of the Supervisory Committee reviewed and approved: the draft interim results announcement; the draft interim report; the proposal to distribute interim dividend for 2019; the internal audit report for the first half of 2019; the comprehensive risk management report for the first half of 2019; and the review for the performance of duty and the performance appraisals of each of the Directors, Supervisors and senior management and the remuneration of the Supervisors of the Company for 2019.

The Supervisory Committee focuses on the supervision and assessment of the performance of the Directors, Supervisors and senior management. In 2019, in accordance with laws and regulations, such as the Guidelines for the Performance Assessment and Supervision of Banking Financial Institutions (銀行業金融機構績效考評監管指引), the Guidelines for Corporate Governance of Commercial Banks (商業銀行公司治理指引), and the Guidelines for the Supervisory Committee of Commercial Banks (商業銀行監事會指引), and with reference to the actual situation of the Company, the Supervisory Committee conducted an assessment on the Directors, Supervisors and senior management in terms of professional knowledge, work experience, moral accomplishment and ethics from various aspects, such as business management, strategic contribution, expertise, experience, capability, performance of duties, occupational quality and numbers of attendance at the meetings. It was concluded that Lin Fan, Shao Yongjun, Koh Tee Choong, Yin Yaoliang, Lin Zheying, Liang Yanjun, Li Huihua, Li Tao, Wang Qing, Wang Ping, Yao Wen and Xu Shuo as excellent and Li Yi as competent.

II. THE INDEPENDENT VIEWS OF THE SUPERVISORY COMMITTEE ON THE OPERATION OF THE COMPANY

During the reporting period, the Supervisory Committee supervised the convening procedures and resolutions of Shareholders' general meetings and Board meetings, the matters to be resolved, the implementation of the resolutions of the Shareholders' general meetings by the Board, the legality of and compliance with rules and regulations by the senior management during their performance of duties, and the implementation of all control systems throughout the Company in accordance with relevant laws and regulations of the PRC, the Listing Rules, and normative documents of the Company related to governance by law.

Following supervision on the Directors and senior management of the Company, the Supervisory Committee is of the view that the Board conscientiously performed their work in compliance with the Company Law, the Securities Law, the Listing Rules, the Articles of Association and other relevant laws, rules and regulations in 2019. The Supervisory Committee also considers that all Directors were meticulous and responsible for their work, and by adopting scientific and democratic decision making procedures, the Company further improved the internal management and internal control system and established a better internal control mechanism. The decision of the Company on significant matters was reasonable and the decision-making procedures were legal and valid. The Directors and the senior management of the Company complied with the requirements of laws, regulations, the Article of Association of the Company in performing their duties, and diligently acted in good faith to safeguard the interests of the Company.

The Supervisory Committee was satisfied with the operating results and assets position of the Company in 2019. In 2020, the Supervisory Committee will strictly follow the relevant requirements under the Company Law, Securities Law and the Articles of Association, and supervise the performance and conduct of the Board and senior management in accordance with laws. In compliance with the requirements of the modern enterprise system, the Supervisory Committee will also supervise improvement by the Company of its corporate governance structure to enhance corporate governance. In addition, the Supervisory Committee will continue to enhance and fulfil its supervisory role, conscientiously perform their duties, and attend meetings of the Board according to the law. In doing so, it will keep abreast with the decision-making procedures of material matters of the Company as well as their legitimacy so as to protect the interests of the Company and the Shareholders.

By order of the Supervisory Committee

Li Huihua
Chairman

27 March 2020

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company also acknowledges the vital importance of good corporate governance to the success and sustainability of the Company.

The Board is of the view that during the period from the Listing Date to 31 December 2019, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "Corporate Governance Code").

The Company will periodically review and enhance its corporate governance practices to ensure that it will continue to comply with the requirements of the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own code of conduct regarding securities transaction by the Directors and the Supervisors on terms no less exacting than the required standard in the Model Code. The Company has made specific enquiries to all the Directors and Supervisors and they have confirmed that each of them has complied with the above-mentioned code from the Listing Date and up to 31 December 2019.

BOARD OF DIRECTORS

Board Composition

The Board consists of seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors.

The Directors of the Company from the Listing Date and up to the date of this report were:

Executive Directors

Mr. Lin Fan (Chairman)
Mr. Shao Yongjun

Non-executive Directors

Mr. Koh Tee Choong
Mr. Li Guozhou (appointed on 23 September 2019)
Mr. Yin Yaoliang (resigned on 23 September 2019)

Independent Non-executive Directors

Mr. Wong Man Chung Francis (appointed on 24 February 2020)
Mr. Lin Zheying
Ms. Liang Yanjun
Mr. Lau Wai Leung Anders (resigned on 31 December 2019)

The Company has listed independent non-executive Directors in all corporate communications pursuant to the Listing Rules. The latest list of Directors (by category) which specifies their roles and functions was also disclosed in the websites of the Company and the Stock Exchange pursuant to the Listing Rules.

None of the members of the Board is related to one another.

The Company failed to meet the following requirements from 31 December 2019 to 23 February 2020: (i) the Board must include at least three independent non-executive Directors under Rule 3.10(1) of the Listing Rules; (ii) at least one of the independent non-executive Directors must have appropriate professional or qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules; and (iii) the composition of the Audit Committee under Rule 3.21 of the Listing Rules. Following the appointment of Mr. Wong Man Chung Francis as an independent non-executive Director with effect from 24 February 2020, the Company has complied with the relevant requirements under the Listing Rules.

Apart from the above, during the period from the Listing Date to 31 December 2019, the Board at all times complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. One-third of the members of the Board was independent non-executive Directors.

The Company has received written annual confirmation of independence from all independent non-executive Directors and considers all independent non-executive Directors are independent.

All Directors have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

Responsibilities

The Board is collectively responsible for leading and managing the Company and overseeing the businesses, strategic decisions and performance of the Company. The Board has delegated the president of the Company authority to assign the authority and responsibility for the daily management and operation of the Company to the senior management. In addition, the Board has established Board committees (the "Committees") and has delegated to these Committees various responsibilities as set out in their respective terms of reference.

All Directors have performed their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times.

Delegation by the Board

The Board reserves its rights to make decisions on all major matters of the Company, including the formulation and monitoring of all policies and directions, overall strategies and budgets, internal control and risk management systems, major transactions (in particular those which may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as advice and services of the joint company secretaries of the Company, with a view to ensuring that the procedures of the Board and all applicable rules and regulations are followed. Each Director may request the Board to seek independent professional advice in appropriate circumstances at the expense of the Company.

The day-to-day management, administration and operation of the Company are delegated to the chairman and president of the Company. Its delegated functions and responsibilities are periodically reviewed by the Board. Any major transactions of the Company shall be subject to the approval of the Board.

The Company has arranged appropriate insurance cover in respect of possible legal actions against its Directors, Supervisors and senior management.

Appointment and Re-election of Directors

The procedures and processes of appointment, re-election and removal of Directors are specified in the Articles of Association. The Nomination Committee is responsible for reviewing the structure, size, board diversity and composition of the Board, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. Details of the Nomination Committee are set out in the section headed "Board Committees" below.

Each of the Directors has entered into a service contract with the Company.

The Directors (including non-executive Directors) are typically appointed for a term of three years or upon the expiry of the session of the Board (if shorter) and eligible for re-election upon expiry of their term of office. The first session of the Board has a term of three years beginning in August 2018.

Board Diversity

In determining the composition of the Board, the Company considers whether a candidate will bring potential complementary benefits to the Board and contribute to the improvement of the overall competence, experience and expertise of the Board. The Company may consider the diversity of the composition of the Board in various aspects, including professional experience and qualifications, gender, age, ethnicity, and cultural and educational background, as well as any other factors that the Board from time to time deems relevant and appropriate. Selection of candidates will be based on a range of diversity perspectives, including but not limited to experience and expertise, professional experience and qualifications, gender, age, ethnicity and cultural and educational background. The Nomination Committee will review the above board diversity policy as and when appropriate to ensure its effectiveness.

Induction and Continuing Development of Directors

Every newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Directors' responsibilities and obligations under the Listing Rules, common law and relevant statutory requirements.

The existing Directors are continuously updated with developments in legal and regulatory regime and the business and market environments so as to facilitate the discharge of their responsibilities. The Company organized seminar for Directors from time to time on changes in the Listing Rules and other applicable regulations.

CHAIRMAN AND PRESIDENT

During the year under review, the posts of chairman and president of the Company are held separately by Mr. Lin Fan (executive Director) and Mr. Li Yi, respectively, neither of whom have any financial, business, family or other relationship with each other. This separation ensures that there is a clear division of responsibilities of the management of the Board and the day-to-day management of business of the Company to ensure a balance of power and authority. The president of the Company is responsible for leading the day-to-day management of the Company, implementing the strategic plans and business goals of the Company and formulating and recommending business plans and budgets to the Board whereas the chairman of the Board is responsible for leading the Board and ensuring good corporate governance practices and procedures are established.

ATTENDANCE RECORDS

The attendance of the Directors at the general meetings, Board meetings and Committee meetings since the Listing Date to 31 December 2019 was as follows:

	Number of Meeting Attended/Held during Tenure of Office					
Members of the Board of Directors	General Meetings	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Executive Directors						
Mr. Lin Fan *(Chairman)*	3/3	12/12	N/A	N/A	N/A	6/6
Mr. Shao Yongjun	3/3	12/12	N/A	N/A	N/A	6/6
Non-Executive Directors						
Mr. Koh Tee Choong	3/3	12/12	N/A	2/2	2/2	N/A
Mr. Li Guozhou	2/2	4/4	N/A	N/A	N/A	N/A
Mr. Yin Yaoliang	1/1	8/8	N/A	N/A	N/A	N/A
Independent Non-Executive Directors						
Mr. Wong Man Chung Francis	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Lin Zheying	3/3	12/12	2/2	2/2	2/2	N/A
Ms. Liang Yanjun	3/3	12/12	2/2	N/A	2/2	N/A
Mr. Lau Wai Leung Anders	2/2	11/11	1/1	2/2	N/A	6/6

Note: The attendance is calculated based on the respective number of meetings where the relevant Director is eligible to attend.

BOARD AND COMMITTEE MEETINGS

Board Practices and Conduct of Meetings

During the period from the Listing Date to 31 December 2019, the Company held a total of 12 Board meetings. At the Board meetings, the Board reviewed and approved interim results for the six months ended 30 June 2019 and other significant matters of the Company.

The Company has sent agenda and documents of each meeting of the Board and the Committees and served notices of meetings in advance in accordance with the relevant requirements under the Articles of Association and the Listing Rules.

Documents of the Board meetings together with all appropriate, complete and reliable information are sent to all Directors at least three business days before the date of each Board meeting or Committee meeting to keep the Directors abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and every Director also have separate and independent access to the senior management where necessary.

Draft and final versions of minutes are circulated to Directors or relevant Committee members for comments and records respectively. Minutes of Board meetings and Committee meetings are kept by the joint company secretaries of the Company and are available for inspection by all Directors at all reasonable time.

The Articles of Association contain provisions requiring any Director to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Director or any of his/her associates have a material interest.

BOARD COMMITTEES

The Board has established four committees, namely, the Remuneration Committee, the Nomination Committee, the Audit Committee and the Risk Management Committee, for overseeing particular aspects of the Company's affairs. The Remuneration Committee, the Nomination Committee, the Audit Committee and the Risk Management Committee are established with defined written terms of reference. These terms of reference are posted on the websites of the Company and the Stock Exchange and are available for inspection by the Shareholders upon request. These committees are provided with sufficient resources to discharge their duties and are required to report to the Board on their decisions or recommendations. Since the Listing Date and up to 31 December 2019, 2 meetings of the Remuneration Committee, 2 meetings of the Nomination Committee, 2 meetings of the Audit Committee and 6 meetings of the Risk Management Committee were held respectively.

Remuneration Committee

As at the date of this report, the Remuneration Committee comprises three members, including two independent non-executive Directors, Mr. Lin Zheying and Mr. Wong Man Chung Francis, and one non-executive Director, Mr. Koh Tee Choong. Mr. Lin is the chairman of the Remuneration Committee.

The Remuneration Committee is primarily responsible for making recommendations to the Board on the remuneration policy and structure of the Company for all Directors and senior management and establishing a formal and transparent procedure of the formulation of the remuneration policy. The responsibilities of the Remuneration Committee also include reviewing and approving the remuneration proposals of the management with reference to the corporate goals and objectives of the Board, and ensuring that no Director or any of his/her associates participates in the determination of his/her own remuneration.

During the period from the Listing Date to 31 December 2019, the Remuneration Committee held 2 meetings. The Remuneration Committee has performed the following works during the year: (i) considering and reviewing the remuneration policies and strategies of the Company; (ii) assessing the performance of executive Directors and senior management; and (iii) making recommendations to the Board on remuneration of Directors and senior management.

Details of remuneration of the Directors are set out in note 8 to the financial statements. Details of remuneration of senior management of the Company for the year ended 31 December 2019 by band are as follows:

	Number of senior management
RMB1,000,000–RMB2,000,000	5

Nomination Committee

As at the date of this report, the Nomination Committee comprises three members, including two independent non-executive Directors, Mr. Lin Zheying and Ms. Liang Yanjun, and one non-executive Director, Mr. Koh Tee Choong. Mr. Lin is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board and making recommendations regarding any proposed changes, identifying suitable candidates for appointment as Directors, making recommendations to the Board on the proposed appointment or re-appointment and succession of Directors and assessing the independence of independent non-executive Directors. The Nomination Committee will also review the board diversity policy as and when appropriate to ensure its effectiveness and discuss any revisions that may be required in the light of the corporate strategies of the Company and recommend any such revisions to the Board for consideration and approval.

During the period from the Listing Date to 31 December 2019, the Nomination Committee held 2 meetings. The Nomination Committee has performed the following works during the year: (1) reviewing the structure, size, board diversity and composition of the Board to ensure the professional knowledge, skills and experience of the Board to meet the business needs of the Company; (2) reviewing the confirmation of independence and assessing independence of proposed candidate of independent non-executive Director; and (3) making recommendations to the Board on proposed appointment of Directors.

Audit Committee

As at the date of this report, the Audit Committee comprises three members, who all are independent non-executive Directors, namely Mr. Wong Man Chung Francis. Mr. Lin Zheying and Ms. Liang Yanjun. Mr. Wong is the chairman of the Audit Committee.

The Audit Committee is primarily responsible for reviewing financial information of the Company, monitoring the independence and objectiveness of the external auditors and the effectiveness of the auditing process and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the approval of their remuneration and terms of engagement. The Audit Committee is also responsible for reviewing the financial reporting process and financial controls, internal controls and risk management systems, including the adequacy of resources, staff qualifications and experience, training programmes and budgets of the internal audit functions as well as arrangements for concerns about possible misconducts in financial reporting, internal controls or other matters raised by employees of the Company.

The Audit Committee reviews the annual report, accounts and interim report of the Company before submission to the Board for approval.

During the period from the Listing Date to 31 December 2019, the Audit Committee held 2 meetings. The Audit Committee has performed the following works during the year: (i) reviewing the interim results for the six months ended 30 June 2019; (ii) reviewing the financial reporting procedures and compliance procedures, as well as the report of internal audit on internal controls and risk management system; and (iii) discussing with externals auditors the nature and scope of the audit and reporting obligations.

Risk Management Committee

As at the date of this report, the Risk Management Committee comprises three members, including two executive Directors, Mr. Lin Fan and Mr. Shao Yongjun, and an independent non-executive Director, Mr. Wong Man Chung Francis. Mr. Lin is the chairman of the Risk Management Committee.

The Risk Management Committee is primarily responsible for assisting the Board in carrying out comprehensive risk management and strategic planning, formulating basic risk management standards, supervising comprehensive risk management practices of senior management, regularly evaluating the Company's risk policies, management performance and risk tolerance, and advising the Board on risk management and internal control improvements.

During the period from the Listing Date to 31 December 2019, the Risk Management Committee held 6 meetings. The Risk Management Committee has performed the following works during the year: (i) evaluation of the Company's risk policies; and (ii) proposing improvements to risk management and internal control policies and procedures to the Board.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Board is responsible for presenting a balanced, clear and understandable assessment in annual and interim reports, financial and other disclosures prepared in accordance with the Listing Rules and other applicable statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the financial statements of the Company, which are put to the Board for approval.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties:

(a) to develop and review the policies and practices on corporate governance of the Company;

(b) to review and monitor the training and continuous professional development of the Directors and senior management of the Company;

(c) to review and monitor the policies and practices on compliance with any requirements, directions and regulations that may be prescribed by the Board or contained in any constitutional documents of the Company or imposed by the Listing Rules, the applicable laws and other applicable organisational governance standards;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and

(e) to review the Company's compliance with the corporate governance code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual reports.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company in respect of its reporting responsibilities for the financial statements is set out in the section headed "Independent Auditor's Report" on page 43.

The remuneration received by the Company's auditor, KPMG, during the year ended 31 December 2019 is set out below:

Category of Services	Fee Paid/Payable (RMB'000)
Audit Services	2,800
Non-audit Services	60
Total	2,860

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining sound and effective risk management and internal control systems to safeguard the investments of the shareholders and the assets of the Company.

The Company established an internal audit function to assist the Board and the Risk Management Committee to monitor the risk management and internal control systems and is committed to conducting, at least annually, a review of the effectiveness of the risk management and internal control systems of the Company, including adequacy of resources, qualifications and experience of the accounting and financial reporting personnel of the Company, and the training programmes and budget thereof.

The Board, through the Risk Management Committee, has conducted a review on the risk management and internal control systems of the Company during the year ended 31 December 2019. Such review covered the finance, operation, supervision and risk management of the Company. The Board confirmed that the risk management and internal control systems of the Company are sound, effective and sufficient.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective and ongoing communication with shareholders is essential for enhancing investor relations and investors' understanding of the business performance and strategies of the Company. The Company also recognises the importance of transparency and timely disclosure of corporate information, which enables effective evaluation of the performance of the Company by shareholders and investors.

The Company facilitates communication between the Board and its shareholders through general meetings, and it communicates with the shareholders, investors and the general public through annual reports, interim reports and other corporate announcements.

The Company strives to maintain a high level of investor access through a range of investor relations activities, and regularly meets with institutional investors from overseas and Mainland China to keep the investors abreast of the major developments and strategies of the Company.

To facilitate communication, the Company maintains a website at http://www.dongzhengafc.com, where updates on the Company's structure, the Board, business developments and operations, financial information, corporate governance practices and other information are posted for public access.

JOINT COMPANY SECRETARIES

Ms. Yao Wen and Mr. Chan Pak Hung are the current joint company secretaries of the Company. They are both employees of the Company and have appropriate understanding of the Company's business. As joint company secretaries, they are responsible for supporting the daily operation of the Board and ensuring compliance with the policies and procedures of the Board. All of the Directors can access opinions and use the service of the joint company secretaries to ensure that the procedures of the Board and the applicable laws, rules and regulations are being complied with. The joint company secretaries met the requirement on professional training under the Rule 3.29 of the Listing Rules in 2019.

RIGHTS OF SHAREHOLDERS

A summary of certain rights of the shareholders which shall be disclosed by the Company in accordance with the mandatory disclosure requirement under Paragraph O of the Corporate Governance Code is set out below:

Procedures for Shareholders to convene an extraordinary general meeting

Pursuant to Article 90 of the Articles of Association, Shareholders who request an extraordinary general meeting or a general meeting of a class of Shareholders shall comply with the following procedures:

(i) two or more Shareholders who together hold 10% or more of the shares carrying the right to vote in the meeting contemplated to be held can request the board of Directors to convene an extraordinary general meeting or a class meeting by signing one or several copies of written request(s) in the same form and content, and stating the motions and resolutions proposed. The Board shall convene the extraordinary general meeting or the class meeting as specified in the request as soon as possible. The shareholdings referred to above shall be calculated as at the date of request made.

(ii) if no notice of convening a general meeting was issued within 30 days after the Board receiving the abovementioned written request(s), the Shareholders making the request(s) can convene a meeting by themselves within 4 months after the Board receiving the abovementioned written request(s), and the procedures for convening such meeting shall follow the procedures of the general meeting convened by the Board as much as possible.

Procedures for Shareholders to submit proposal in a general meeting

Pursuant to Article 71 of the Articles of Association, when the Company convenes a general meeting, the Board, the Board of Supervisors, and the Shareholders individually or jointly holding 3% or more of the Company's shares may submit proposals to the Company. Shareholders may submit temporary proposals in writing to the convener at least 10 days prior to the general meeting date. The convener shall then send a supplemental notice to the Shareholders to announce the temporary proposal, within 2 days upon receipt of such proposal.

Procedures for Shareholders to make enquiries to the Company

For matters in relation to the Board, the Shareholders may contact the Company at Unit 5905, 59/F., The Center, 99 Queen's Road Central, Hong Kong.

For matters in relation to share registration, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the registered Shareholders may contact Computershare Hong Kong Investor Services Limited, the H share registrar of the Company on 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

CONSTITUTIONAL DOCUMENTS

There was no change to the Articles of Association during the period from the Listing Date to 31 December 2019. At the 2019 fourth extraordinary general meeting of the Company, the Shareholders approved the proposed amendments to the Articles of Association in relation to the requirements on the notice period of general meetings and convening procedures. The proposed amendments have become effective from 10 March 2020 upon approval by the CBIRC. The latest version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders
of Shanghai Dongzheng Automotive Finance Co., Ltd.
(A joint stock company incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the financial statements of Shanghai Dongzheng Automotive Finance Co., Ltd. ("the Company") set out on pages 49 to 122, which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loss allowances of loans and advances to customers

Refer to Note 13 to the financial statements and the accounting policies in Note 1(h).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2019, the Company's loans and advances to customers amounted to RMB10,195,517 thousand, with allowances for impairment losses amounting to RMB191,364 thousand. The Company uses the expected credit loss ("ECL") model to calculate the loss allowance in accordance with Hong Kong Financial Reporting Standard 9 — Financial instruments. The Company classifies loans and advances to customers into three different stages and recognises an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the loan and advance to customer, depending on whether credit risk on that loan and advance to customer has increased significantly since initial recognition. The determination of loss allowances using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, and adjustments for forward-looking information. Management judgment is involved in the selection of those parameters and the application of the assumptions. In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Company's internal credit risk management strategy. The expected credit losses for loans and advances to customers are derived from estimates whereby management takes into consideration historical overdue data and the historical loss experience for loans.	Our audit procedures to assess loss allowances of loans and advances to customers included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans, the credit grading process and the measurement of loss allowances of loans and advances to customers; • with the assistance of our internal specialists, assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate and adjustments for forward-looking information. • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model.

KEY AUDIT MATTERS (CONTINUED)

Loss allowances of loans and advances to customers (continued)	
Refer to Note 13 to the financial statements and the accounting policies in Note 1(h).	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified the loss allowances of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Company.	➢ for key parameters derived from internal data relating to original loan agreements, by comparing the total balance of the loan list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan list. ➢ for key parameters involving judgement, by seeking evidence from external sources and comparing to the Company's internal records including historical loss experience. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and on transition to the new accounting standard and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development. ➢ for key parameters which were derived from system-generated internal data, by assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information for selected samples.

KEY AUDIT MATTERS (CONTINUED)

Loss allowances of loans and advances to customers (continued)	
Refer to Note 13 to the financial statements and the accounting policies in Note 1(h).	
The Key Audit Matter	**How the matter was addressed in our audit**
	• evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting risk-based samples. We checked loan overdue information. For dealer's loans, we made enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses. • recalculating the amount of credit loss allowance for 12 month and life time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans where the credit risk of the loan has not, or has, increased significantly since initial recognition, respectively. • evaluating whether the disclosures on loss allowance of loans and advances to customers meet the disclosure requirements in Hong Kong Financial Reporting Standard 7 — Financial instruments: Disclosures.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is PANG Shing Chor Eric.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 March 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019
(Express in thousands of Renminbi, unless otherwise stated)

	Note	2019 RMB'000	2018 (Note) RMB'000
Interest income		999,733	759,035
Interest expenses		(463,933)	(320,485)
Net interest income	3	535,800	438,550
Fee and commission income		174,956	331,554
Fee and commission expenses		(1,208)	(1,425)
Net fee and commission income	4	173,748	330,129
Other net income	5	90,270	47,098
Operating income		799,818	815,777
Operating expenses		(163,853)	(127,955)
Impairment losses		(114,553)	(84,343)
Finance costs		(1,633)	—
Profit before taxation	6	519,779	603,479
Income tax	7	(130,378)	(150,962)
Profit and total comprehensive income for the year		389,401	452,517
Earnings per share			
Basic and diluted *(RMB)*	10	0.19	0.28

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in retained earnings at the date of initial application. See Note 1(c).

The notes on pages 54 to 122 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(Express in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2019 RMB'000	31 December 2018 (Note) RMB'000
Assets			
Cash and deposits with central bank	11	**9,479**	35,213
Deposits with banks	12	**126,524**	780,960
Loans and advances to customers	13	**10,004,153**	8,426,177
Finance lease receivables	14	**52,001**	102,980
Property and equipment	15	**40,532**	5,113
Intangible assets	16	**16,512**	15,357
Deferred tax assets	22(b)	**54,852**	73,804
Other assets	17	**23,990**	92,557
Total assets		**10,328,043**	9,532,161
Liabilities			
Placements from banks	18	**5,891,421**	6,085,347
Guarantee deposits	19	**156,845**	79,632
Deposits from shareholders	20	**—**	600,000
Lease liabilities	21	**32,388**	—
Current taxation	22(a)	**70,961**	59,478
Other liabilities	23	**166,853**	224,611
Total liabilities		**6,318,468**	7,049,068
NET ASSETS		**4,009,575**	2,483,093
CAPITAL AND RESERVES			
Share capital	24(c)	**2,139,651**	1,600,000
Reserves	24(d)	**1,869,924**	883,093
TOTAL EQUITY		**4,009,575**	2,483,093

Approved and authorised for issue by the board of directors on 27 March 2020.

Lin Fan
Chairman of the Board of Director
Executive Director

Li Yi
President and the principal person
in charge of accounting affairs

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in retained earnings at the date of initial application. See Note 1(c).

The notes on pages 54 to 122 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019
(Express in thousands of Renminbi, unless otherwise stated)

	Note	Share capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	General risk reserve RMB'000	Retained earnings RMB'000	Total Equity RMB'000
Balance at 1 January 2018		1,600,000	–	46,004	55,700	328,872	2,030,576
Changes in equity for 2018:							
1. Profit and total comprehensive income for the year		–	–	–	–	452,517	452,517
2. Conversion into joint stock limited liability company		–	404,340	(46,004)	–	(358,336)	–
3. Appropriation of profits							
– Appropriation for surplus reserve	24(d)	–	–	45,252	–	(45,252)	–
– Appropriation for general risk reserve	24(d)	–	–	–	51,341	(51,341)	–
Balance at 31 December 2018 (Note)		1,600,000	404,340	45,252	107,041	326,460	2,483,093
Adjustment on initial application of HKFRS 16 (net of tax)	1(c)	–	–	–	–	(915)	(915)
Adjusted balance at 1 January 2019		**1,600,000**	**404,340**	**45,252**	**107,041**	**325,545**	**2,482,178**
Changes in equity for 2019:							
1. Profit and total comprehensive income for the year		**–**	**–**	**–**	**–**	**389,401**	**389,401**
2. Issue of H shares	24(c)	**539,651**	**769,517**	**–**	**–**	**–**	**1,309,168**
3. Appropriation of profits							
– Dividends declared in respect of the current year	24(b)	**–**	**–**	**–**	**–**	**(171,172)**	**(171,172)**
– Appropriation for surplus reserve	24(d)	**–**	**–**	**38,940**	**–**	**(38,940)**	**–**
– Appropriation for general risk reserve	24(d)	**–**	**–**	**–**	**49,006**	**(49,006)**	**–**
Balance at 31 December 2019		**2,139,651**	**1,173,857**	**84,192**	**156,047**	**455,828**	**4,009,575**

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in retained earnings at the date of initial application. See Note 1(c).

The notes on pages 54 to 122 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2019
((Express in thousands of Renminbi, unless otherwise stated)

	Note	2019 RMB'000	2018 (Note) RMB'000
Operating activities			
Profit before taxation		519,779	603,479
Adjustments for:			
Impairment losses	6(b)	114,553	84,343
Depreciation and amortisation	6(c)	17,660	7,741
Listing expenses	6(c)	9,207	2,268
Finance costs	6(c)	1,633	—
Changes in operating assets			
Net decrease/(increase) in deposits with central bank		5,752	(9,581)
Net increase in deposits with banks		(10,000)	—
Net increase in loans and advances to customers		(1,648,080)	(2,669,604)
Net decrease/(increase) in finance lease receivables		54,609	(94,414)
Net increase in other assets		(10,212)	(20,064)
Changes in operating liabilities			
Net (decrease)/increase in placements from banks		(236,859)	2,065,347
Net increase in guarantee deposits		77,213	738
Net (decrease)/increase in deposits from shareholders		(600,000)	600,000
Net (decrease)/increase in other liabilities		(27,052)	140,540
Cash (used in)/generated from operations		(1,731,797)	710,793
Income tax paid	22(a)	(99,638)	(170,158)
Net cash (used in)/generated from operating activities		(1,831,435)	540,635
Investing activities			
Payments for purchase of property and equipment and intangible assets		(6,312)	(8,738)
Net cash used in investing activities		(6,312)	(8,738)

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in retained earnings at the date of initial application. See Note 1(c).

The notes on pages 54 to 122 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2019
((Express in thousands of Renminbi, unless otherwise stated)

	Note	2019 RMB'000	2018 (Note) RMB'000
Financing activities			
Proceeds from issuance of H-shares upon the public offering		1,413,670	—
Payments for listing expenses	25(b)	(80,078)	(2,937)
Capital element of lease rentals paid	25(b)	(7,518)	—
Interest element of lease rentals paid	25(b)	(1,633)	—
Dividends paid to equity shareholders of the company	24(b)	(171,172)	—
Net cash generated from/(used in) financing activities		1,153,269	(2,937)
Net (decreased)/increase in cash and cash equivalents		(684,478)	528,960
Cash and cash equivalents at 1 January	25	800,997	272,037
Cash and cash equivalents at 31 December	25	116,519	800,997

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in retained earnings at the date of initial application. See Note 1(c).

The notes on pages 54 to 122 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Company are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Company.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Company's results and financial position for the current or prior periods have been prepared or presented. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements brought forward from HKAS 17 are substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Company has initially applied HKFRS 16 as from 1 January 2019. The Company has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Company applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Company has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Company is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Company is concerned, these newly capitalised leases are primarily in relation to property and equipment as disclosed in Note 27(a). For an explanation of how the Company applies lessee accounting, see Note 1(g)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Company determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6.80%.

To ease the transition to HKFRS 16, the Company applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Company applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(ii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Company relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

On transition into HKFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	1 January 2019 RMB'000
Right-of-use assets	23,300
Deferred tax asset	305
Lease liabilities	(24,520)
Retained earnings	915

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

b. Lessee accounting and transitional impact (continued)

The following table reconciles the operating lease commitments as disclosed in Note 27(a) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitment at 31 December 2018	28,423
Less: total future interest expenses	(3,903)
Total lease liabilities recognised at 1 January 2019	24,520

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at their carrying amount as if HKFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at the date of initial application of HKFRS 16).

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Company is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Company concludes that there is no significant impact of the adoption of HKFRS 16 on the Company's statement of financial position.

c. Impact on the financial result, segment results and cash flows of the Company

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Company as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit from operations in the Company's statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Company as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

c. Impact on the financial result, segment results and cash flows of the Company (continued)

The following tables give an indication of the estimated impact of adoption of HKFRS 16 on the Company's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A) RMB'000	Add back: HKFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B+C) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Operating expenses	(163,853)	8,609	(9,151)	(164,395)	(127,955)
Finance costs	(1,633)	1,633	—	—	—
Profit before taxation	519,779	10,242	(9,151)	520,870	603,479
Profit and total comprehensive income for the year	389,401	10,242	(9,151)	390,492	452,517
Reportable segment profit before taxation for year ended 31 December 2019 (Note 29) impacted by the adoption of HKFRS 16:					
— Retail business	360,372	8,671	(7,747)	361,296	534,942
— Dealer's loan business	55,517	1,571	(1,404)	55,684	17,428
— Others	103,890	—	—	103,890	51,109
Total	519,779	10,242	(9,151)	520,870	603,479

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

c. Impact on the financial result, segment results and cash flows of the Company (continued)

	2019			2018
	Amounts reported under HKFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under HKAS 17 (Notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) RMB'000	Compared to amounts reported under HKAS 17 RMB'000
Line items in the cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash (used in)/generated from operations	(1,731,797)	(9,151)	(1,740,948)	710,793
Net cash (used in)/ generated from operating activities	(1,831,435)	(9,151)	(1,840,586)	540,635
Capital element of lease rentals paid	(7,518)	7,518	—	—
Interest element of lease rentals paid	(1,633)	1,633	—	—
Net cash generated from/ (used in) financing activities	1,153,269	9,151	1,162,420	(2,937)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Translation of foreign currencies

When the Company receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates ruling at the transaction dates.

A spot exchange rate is quoted by the People's Bank of China ("PBOC"), the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to RMB using the foreign exchange rates ruling at the transaction dates.

(e) Property and equipment

The following items of property and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 1(i)):

— right-of-use assets arising from leases over freehold or leasehold properties where the Company is not the registered owner of the property interest; and

— items of equipment, including right-of-use assets arising from leases of underlying equipment (see Note 1(g)).

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Office furniture	5 years
Electronic equipment	5 years
Improvement to leasehold property	3–5 years

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property and equipment (continued)

Where parts of an item of property and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 1(i)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

	Estimated useful lives
Computer software	5 years

Both the period and method of amortisation are reviewed annually.

(g) Leased assets

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Company has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Company recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Company are primarily office furniture. When the Company enters into a lease in respect of a low-value asset, the Company decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS
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1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets (continued)

(i) As a lessee (continued)

(A) Policy applicable from 1 January 2019 (continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 1(e) and 1(i)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Company will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property and equipment' and presents lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Company classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Company. Leases which did not transfer substantially all the risks and rewards of ownership to the Company were classified as operating leases.

Where the Company had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets (continued)

(ii) As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

(h) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are measured initially at fair value, plus, for instruments not classified as at fair value through profit or loss, any directly attributable transaction costs. For an explanation of how the Company determines fair value of financial instruments, see Note 26(f). The financial instruments are subsequently accounted for as follows, depending on their classification.

Financial instruments held by the Company are classified into one of the following measurement categories:

— amortised cost, if the financial instrument is held for the collection of contractual cash flows which represent solely payments of principal and interest ("SPPI"). Interest income from the investment is calculated using the effective interest method (see Note 1(p)(i)).

— fair value through other comprehensive income ("FVOCI") — recycling, if the contractual cash flows of the financial instrument comprise solely payments of principal and interest and the financial instrument is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial instrument is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— fair value at profit or loss (FVPL) if the financial instrument does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial instrument (including interest) are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(i) Recognition and measurement of financial assets and liabilities (continued)

However, the Company may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

— the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies, in other comprehensive income ("OCI"); and

— the Company may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Financial assets carried at amortised cost

The Company assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Company's business model for managing the asset.

For an asset to be classified and measured at amortised cost, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Company determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Company's business models for managing its financial instruments reflect how the Company manages its financial assets in order to generate cash flows. The Company's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(i) Recognition and measurement of financial assets and liabilities (continued)

Financial assets carried at amortised cost (continued)

The Company considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Company does not reasonably expect to occur, such as so-called “worst case” or “stress case” scenarios. The Company takes into account all relevant evidence available such as:

— how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company’s key management personnel;

— the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and

— how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Company determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Company reassess its business models each reporting period to determine whether the business models have changed since the preceding period.

Financial assets carried at amortised cost are subject to impairment.

Other financial liabilities

Other financial liabilities, including placements from banks and other financial institutions, guarantee deposits, deposits from shareholders, interest payables and other payables are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(ii) Impairment of financial assets

The Company recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and deposits with central bank, deposits with banks and other financial institutions, loans and advances to customers, interest receivables and other receivables); and

— finance lease receivables.

NOTES TO THE FINANCIAL STATEMENTS
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1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, interest receivables, other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

— finance lease receivables: discount rate used in the measurement of the finance lease receivable;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

In measuring ECLs, the Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date (referred to as Stage 1); and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies (referred to as Stage 2 and Stage 3).

Loss allowance for other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Credit-impaired financial assets

At each reporting date, the Company assesses whether a financial asset is credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulty of the borrower or issuer;

— a breach of contract such as a default or past due event;

— the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

— the disappearance of an active market for a security because of financial difficulties; or

— the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Company assesses whether loans and receivables carried at amortised cost are credit-impaired at each reporting date.

A loans and advances to customers is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit-impaired when there is observable evidence of credit-impairment including meeting the definition of default (see below). A default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 60 days or more.

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS
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1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default ("PD") which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Company considers the following as constituting an event of default:

— the borrower is past due more than 60 days on any material credit obligation to the Company; or

— the borrower is unlikely to pay its credit obligations to the Company in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increases in credit risk

The Company monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Company will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Definition of default (continued)

Significant increases in credit risk (continued)

- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Company.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Company considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

NOTES TO THE FINANCIAL STATEMENTS
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1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Definition of default (continued)

Presentation of allowance for ECL in the statements of financial position

Loss allowances for ECL are presented in the statements of financial position as follows:

— for financial assets carried at amortised cost: as a deduction from the gross carrying amount of the assets;

Write-off policy

The gross carrying amount of a financial asset, finance lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(iii) Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the reporting periods. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

In estimating the fair value of a financial asset and financial liability, the Company considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Company obtains market data from the same market where the financial instrument was originated or purchased.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(iv) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

— the contractual rights to the cash flows from the financial asset expire; or

— the Company transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Company continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Company and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Company has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(i) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

— Property and equipment, including right-of-use assets

— Intangible assets

If any such indication exists, the asset's recoverable amount is estimated.

NOTES TO THE FINANCIAL STATEMENTS
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1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of other assets (continued)

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest company of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or company of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in the reporting periods. Reversals of impairment losses are credited to profit or loss in the reporting periods in which the reversals are recognised.

(j) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Company recognises the related revenue (see Note 2(p)). A contract liability would also be recognised if the Company has an unconditional right to receive non-refundable consideration before the Company recognises the related revenue.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Pursuant to the relevant laws and regulations of the PRC, the Company has joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Company makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organization. The contributions are charged to profit or loss on an accrual basis which related services are rendered by employees.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Company can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

NOTES TO THE FINANCIAL STATEMENTS
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1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax (continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting periods. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the reporting periods and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Provisions and contingent liabilities

Provisions are recognised when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Specifically, the Company uses a 5-step approach to revenue recognition:

- Step 1: Identify the contracts with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognised when control over a service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Company is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes.

Control of the services may be transferred over time or at a point in time. Control of the services is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the Company's performance creates and enhances an asset that the customer controls as the Company performs; or
- the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress toward complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the services.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition (continued)

Further details of the Company's revenue and other income recognition policies are as follows:

(i) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 1(h)(i)).

(ii) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Company which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

(q) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them. Grants that compensate the Company for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Company for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(r) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Related parties

(a) A person, or a close member of that person's family, is related to the Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a company of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies, management has made the following accounting judgements:

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. The Company carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(b) Sources of estimation uncertainty

Notes 12, 13 and 14 contain information about the assumptions and their risk factors relating to impairment of financial assets. Notes 1(e) and 1(f) contain information about the assumptions and their risk factors relating to depreciation and amortisation. Note 26(f) contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other significant sources of estimation uncertainty are as follows:

Determining the lease term

As explained in policy Note 1(g), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Company, the Company evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Company to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Company's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Company's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

3 NET INTEREST INCOME

	2019 RMB'000	2018 RMB'000
Interest income arising from		
Loans and advances to customers	978,697	745,070
Deposits with central bank and other banks	13,620	3,876
Finance leases receivables	7,416	10,089
Sub-total	999,733	759,035
Interest expenses arising from		
Placements from banks	(463,800)	(315,230)
Deposits from shareholders	(133)	(5,255)
Sub-total	(463,933)	(320,485)
Net interest income	535,800	438,550

4 NET FEE AND COMMISSION INCOME

	2019 RMB'000	2018 RMB'000
Fee and commission income arising from		
Consulting services	91,615	281,739
Joint loan services	69,954	46,990
Others	13,387	2,825
Sub-total	174,956	331,554
Fee and commission expenses arising from		
Commission fees	(221)	(740)
Others	(987)	(685)
Sub-total	(1,208)	(1,425)
Net fee and commission income	173,748	330,129

The Company derives its fee and commission income arising from its consulting services at a point in time; fee and commission income arising from its joint loan services over time.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

5 OTHER NET INCOME

	Note	2019 RMB'000	2018 RMB'000
Government grants	(a)	50,817	48,405
Net exchange gain		39,703	—
Others		(250)	(1,307)
Total		90,270	47,098

(a) The government grants were received unconditionally by the Company from the local government where it resides.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Staff costs

	2019 RMB'000	2018 RMB'000
Salaries, bonuses and allowances	81,869	63,177
Contributions to pension schemes	8,115	6,844
Other social welfare	8,459	6,235
Total	98,443	76,256

(b) Impairment losses

	Note	2019 RMB'000	2018 RMB'000
Loans and advances to customers	13(e)	118,183	73,211
Deposits with banks	12	—	(135)
Finance lease receivables	14(b)	(3,630)	11,267
Total		114,553	84,343

(Express in thousands of Renminbi, unless otherwise stated)

6 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

	2019 RMB'000	2018 RMB'000
Depreciation and amortisation		
— property and equipment	2,563	2,195
— intangible assets	6,488	5,546
— right-of-use assets	8,609	—
Listing expenses	9,207	2,268
Tax and surcharges	8,645	6,295
Office expenses	4,681	2,934
Maintenance fees	4,577	3,288
Travel expenses	4,251	3,996
Legal consultancy	3,277	2,096
Auditor's remuneration	2,800	500
Expense relating to short-term leases	345	—
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	—	12,928
Others	9,967	9,653
Sub-total	65,410	51,699
Finance cost	1,633	—
Total	67,043	51,699

7 INCOME TAX IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the statement of profit or loss and other comprehensive income represents:

	Note	2019 RMB'000	2018 RMB'000
Current tax			
Provision for the year	22(a)	111,121	152,752
Deferred tax			
Origination and reversal of temporary differences	22(b)	19,257	(1,790)
Total		130,378	150,962

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

7 INCOME TAX IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Note	2019 RMB'000	2018 RMB'000
Profit before taxation:		519,779	603,479
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	(i)	129,945	150,870
Tax effect of non-deductible expenses		433	126
Others		–	(34)
Actual income tax expense		130,378	150,962

(i) The Company is subject to PRC corporate income tax at the statutory tax rate of 25%.

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Note	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to pension schemes RMB'000	2019 Total RMB'000
Executive directors						
Mr. Lin Fan		–	1,416	–	51	1,467
Mr. Shao Yongjun		–	488	–	14	502
Non-executive directors						
Mr. Yin Yaoliang	(1)	–	–	–	–	–
Mr. Koh Tee Choong	(2)	–	–	–	–	–
Mr. Li Guozhou	(3)	–	–	–	–	–
Independent non-executive directors						
Mr. Lin Zheying	(4)	476	–	–	–	476
Ms. Liang Yanjun	(4)	477	–	–	–	477
Ms. Bao Xiaoli	(5)	103	–	–	–	103
Mr. Lau Wai Leung Anders	(6)	251	–	–	–	251
Supervisors						
Mr. Li Huihua		–	–	–	–	–
Mr. Li Tao	(7)	–	–	–	–	–
Ms. Wang Qing	(8)	–	262	–	31	293

(Express in thousands of Renminbi, unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	Note	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to pension schemes RMB'000	2018 Total RMB'000
Executive directors						
Mr. Lin Fan		—	1,564	—	36	1,600
Mr. Shao Yongjun		—	—	—	—	—
Non-executive directors						
Mr. Yin Yaoliang	(1)	—	—	—	—	—
Mr. Koh Tee Choong	(2)	—	—	—	—	—
Mr. Lu Feng	(9)	—	—	—	—	—
Independent non-executive directors						
Mr. Lin Zheying	(4)	108	—	—	—	108
Ms. Liang Yanjun	(4)	108	—	—	—	108
Ms. Bao Xiaoli	(5)	108	—	—	—	108
Supervisors						
Mr. Li Huihua		—	—	—	—	—
Mr. Li Tao	(7)	—	—	—	—	—
Ms. Wang Qing	(8)	—	142	17	32	191

(1) Mr. Yin Yaoliang was appointed as non-executive director on 19 July 2018 and resigned on 23 September 2019.

(2) Mr. Koh Tee Choong was appointed as non-executive director on 9 August 2018.

(3) Mr. Li Guozhou was appointed as non-executive director on 23 September 2019.

(4) Mr. Lin Zheying and Ms. Liang Yanjun were appointed as independent non-executive directors on 9 August 2018.

(5) Ms. Bao Xiaoli was appointed as independent non-executive directors on 9 August 2018 and resigned on 8 March 2019.

(6) Mr. Lau Wai Leung Anders was appointed as independent non-executive directors on 8 March 2019 and resigned on 31 December 2019.

(7) Mr. Li Tao was appointed as supervisor on 26 May 2018.

(8) Ms. Wang Qing was appointed as supervisor on 25 May 2018.

(9) Mr. Lu Feng resigned as non-executive director on 19 July 2018.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

None of the directors or supervisors (except Lin Fan, Shao Yongjun, Lin Zheying, Liang Yanjun, Bao Xiaoli, Lau Wai Leung Anders and Wang Qing)(2018: except Lin Fan, Lin Zheying, Liang Yanjun and Bao Xiaoli and Wang Qing) received any fees or emoluments in respect of their services to the Company during the reporting periods as they were paid by the Company's shareholders.

No Director received other remuneration or benefits in kind from the Company in respect of the reporting periods. Under the arrangement currently in force as of 31 December 2019, there was no arrangement under which a Director or Supervisor has waived or agreed to waive any emoluments during the reporting periods.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2018: one) is director whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other four (2018: four) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	6,387	6,223
Discretionary bonuses	—	166
Contributions to pension schemes	205	273
	6,592	6,662

The emoluments of the four (2018: four) individuals with the highest emoluments are within the following bands:

	2019 Number of individuals	2018 Number of individuals
Nil — HK$1,000,000	—	—
HK$1,000,001 — HK$1,500,000	1	2
HK$1,500,001 — HK$2,000,000	2	1
HK$2,000,001 — HK$2,500,000	1	—
HK$2,500,001 — HK$3,000,000	—	1
HK$3,000,001 — HK$3,500,000	—	—
	4	4

10 EARNINGS PER SHARE

(a) Basic and diluted earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB389,401 thousands (2018: RMB452,517 thousands) and the weighted average of 2,001,771 thousands ordinary shares (2018: 1,600,000 thousands shares) in issue during the year, which is set out as follows:

Weighted average number of ordinary shares

	2019	2018
Number of ordinary shares at 1 January (in thousands)	**1,600,000**	1,600,000
Effect of issuance of H-shares (in thousands)	**401,771**	—
Weighted average number of ordinary shares at 31 December (in thousands)	**2,001,771**	1,600,000

On 3 April 2019, the Company was listed on the Main Board of the HKSE, pursuant to which 533,336 thousands ordinary shares were issued. On 25 April 2019, the over-allotment option granted by the Company was partially exercised, pursuant to which 6,315 thousands ordinary shares were issued. The weighted average number of ordinary shares in issue for year ended 31 December 2019 is adjusted to reflect the effect of H-shares issued upon public offerings.

	2019	2018
Profit attributable to ordinary equity shareholders of the Company (RMB'000)	**389,401**	452,517
Weighted average number of ordinary shares issued (in thousands)	**2,001,771**	1,600,000
Basic and diluted earnings per share attributable to shareholders (RMB)	**0.19**	0.28

There were no dilutive potential ordinary shares for the year ended 31 December 2019 or 2018. Therefore, diluted earnings per share are equivalent to basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS
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11 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	2019 RMB'000	2018 RMB'000
Deposits with central bank			
— Statutory deposit reserves	(a)	9,424	15,176
— Surplus deposit reserves	(b)	50	20,037
Sub-total		9,474	35,213
Accrued interest		5	—
Total		9,479	35,213

(a) The Company places statutory deposit reserves with the People's Bank of China ("PBOC") in accordance with relevant regulations.

At 31 December, the statutory deposit reserve ratios applicable to the Company were as follows:

	2019 RMB'000	2018 RMB'000
Reserve ratio for deposits	6.0%	7.0%

The statutory deposit reserves are not available for the Company's operation business.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of cash settlement.

12 DEPOSITS WITH BANKS

	2019 RMB'000	2018 RMB'000
Deposits with banks	126,469	780,960
Accrued interest	55	—
Less: Allowances for impairment losses	—	—
Total	126,524	780,960

	Note	Allowances for impairment losses RMB'000
At 1 January 2018		135
Reversal for the year	6(b)	(135)
At 31 December 2018		—
Charge for the year	6(b)	—
At 31 December 2019		—

(Express in thousands of Renminbi, unless otherwise stated)

13 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	2019 RMB'000	2018 RMB'000
Retail loans	7,522,352	7,671,650
Dealer's loans	2,625,086	890,506
Gross loans and advances to customers	10,147,438	8,562,156
Accrued interest	48,079	—
Less: Allowances for impairment losses	(191,364)	(135,979)
Net loans and advances to customers	10,004,153	8,426,177

(b) Analysed by type of collateral

	2019 RMB'000	2018 RMB'000
Collateralized loans	7,522,352	7,671,650
Guaranteed loans	2,625,086	890,506
Gross loans and advances to customers	10,147,438	8,562,156
Accrued interest	48,079	—
Less: Allowances for impairment losses	(191,364)	(135,979)
Net loans and advances to customers	10,004,153	8,426,177

(c) Overdue loans (excluding accrued interest) analysed by type of collateral and overdue period

	31 December 2019				
	Overdue within 3 months (inclusive) RMB'000	Overdue more than 3 months to 6 months (inclusive) RMB'000	Overdue more than 6 months to one year (inclusive) RMB'000	Overdue more than one year RMB'000	Total RMB'000
Collateralized loans	89,974	17,012	12,800	3,385	123,171

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

13 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Overdue loans (excluding accrued interest) analysed by type of collateral and overdue period (continued)

	31 December 2018				
	Overdue within 3 months (inclusive) RMB'000	Overdue more than 3 months to 6 months (inclusive) RMB'000	Overdue more than 6 months to one year (inclusive) RMB'000	Overdue more than one year RMB'000	Total RMB'000
Collateralized loans	85,932	15,897	2,037	932	104,798

Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more. All amounts are shown as gross amount of overdue loans and advances to customers before any allowances for impairment losses. As at 31 December 2019, there was no overdue guaranteed loan (as at 31 December 2018: Nil).

(d) Analysed by methods for assessing allowances for impairment losses

	31 December 2019			
	12-month ECL RMB'000	**Lifetime ECL for not credit-impaired RMB'000**	**Lifetime ECL for credit-impaired RMB'000**	**Total RMB'000**
Gross loans and advances to customers (including accrued interest)	**10,072,109**	**78,175**	**45,233**	**10,195,517**
Less: Allowances for impairment losses	**(112,932)**	**(38,459)**	**(39,973)**	**(191,364)**
Net loans and advances to customers	**9,959,177**	**39,716**	**5,260**	**10,004,153**

	31 December 2018			
	12-month ECL RMB'000	Lifetime ECL for not credit-impaired RMB'000	Lifetime ECL for credit-impaired RMB'000	Total RMB'000
Gross loans and advances to customers	8,457,202	81,357	23,597	8,562,156
Less: Allowances for impairment losses	(89,071)	(26,522)	(20,386)	(135,979)
Net loans and advances to customers	8,368,131	54,835	3,211	8,426,177

(Express in thousands of Renminbi, unless otherwise stated)

13 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Movements of allowances for impairment losses

	Note	Year ended 31 December 2019 12-month ECL RMB'000	Lifetime ECL for not credit-impaired RMB'000	Lifetime ECL for credit-impaired RMB'000	Total RMB'000
At 1 January 2019		89,071	26,522	20,386	135,979
Transferred to:					
— 12-month ECL		7,104	(7,104)	—	—
— lifetime ECL for not credit-impaired		(780)	860	(80)	—
— lifetime ECL for credit-impaired		(419)	(1,908)	2,327	—
Charge for the year	6(b)	17,956	20,089	80,138	118,183
Write-off for the year		—	—	(66,750)	(66,750)
Recovery after write-off		—	—	3,952	3,952
At 31 December 2019		112,932	38,459	39,973	191,364

	Note	Year ended 31 December 2018 12-month ECL RMB'000	Lifetime ECL for not credit-impaired RMB'000	Lifetime ECL for credit-impaired RMB'000	Total RMB'000
At 1 January 2018		72,807	10,707	14,822	98,336
Transferred to:					
— 12-month ECL		4,234	(3,981)	(253)	—
— lifetime ECL for not credit-impaired		(572)	572	—	—
— lifetime ECL for credit-impaired		(178)	(315)	493	—
Charge for the year	6(b)	12,780	19,539	40,892	73,211
Write-off for the year		—	—	(36,364)	(36,364)
Recovery after write-off		—	—	796	796
At 31 December 2018		89,071	26,522	20,386	135,979

NOTES TO THE FINANCIAL STATEMENTS
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14 FINANCE LEASE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Minimum finance lease receivables	60,577	126,287
Less: Unearned finance lease income	(3,443)	(11,844)
Present value of finance lease receivables	57,134	114,443
Less: Allowances for impairment losses	(5,133)	(11,463)
Total	52,001	102,980

(a) Finance lease receivables, unearned finance lease income and minimum finance lease receivables analysed by remaining period are listed as follows:

	31 December 2019		
	Minimum finance lease receivables RMB'000	Unearned finance lease income RMB'000	Present value of finance lease receivables RMB'000
Within 1 year (inclusive)	47,399	(3,002)	44,397
After 1 year but within 2 years (inclusive)	12,769	(399)	12,370
After 2 years but within 3 years (inclusive)	294	(36)	258
After 3 years but within 4 years (inclusive)	115	(6)	109
Sub-total	60,577	(3,443)	57,134
Less: Allowances for impairment losses			(5,133)
Total			52,001

	31 December 2018		
	Minimum finance lease receivables RMB'000	Unearned finance lease income RMB'000	Present value of finance lease receivables RMB'000
Within 1 year (inclusive)	66,547	(8,153)	58,394
After 1 year but within 2 years (inclusive)	45,486	(3,106)	42,380
After 2 years but within 3 years (inclusive)	13,917	(542)	13,375
After 3 years	337	(43)	294
Sub-total	126,287	(11,844)	114,443
Less: Allowances for impairment losses			(11,463)
Total			102,980

(Express in thousands of Renminbi, unless otherwise stated)

14 FINANCE LEASE RECEIVABLES (CONTINUED)

(b) Movements of allowances for impairment losses are as follows:

	Note	Year ended 31 December 2019 12-month ECL RMB'000	Lifetime ECL for not credit-impaired RMB'000	Lifetime ECL for credit-impaired RMB'000	Total RMB'000
At 1 January 2019		644	4,159	6,660	11,463
Transferred to:					
— 12-month ECL		3,999	(3,999)	—	—
— lifetime ECL for not credit-impaired		(33)	33	—	—
— lifetime ECL for credit-impaired		(1)	—	1	—
(Reversal)/charge for the year	6(b)	(4,221)	602	(11)	(3,630)
Write-off for the year		—	—	(3,244)	(3,244)
Recovery after write-off		—	—	544	544
At 31 December 2019		388	795	3,950	5,133

	Note	Year ended 31 December 2018 12-month ECL RMB'000	Lifetime ECL for not credit-impaired RMB'000	Lifetime ECL for credit-impaired RMB'000	Total RMB'000
At 1 January 2018		196	—	—	196
Transferred to:					
— lifetime ECL for credit-impaired		(75)	—	75	—
Charge for the year	6(b)	523	4,159	6,585	11,267
At 31 December 2018		644	4,159	6,660	11,463

NOTES TO THE FINANCIAL STATEMENTS
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15 PROPERTY AND EQUIPMENT

(a) Reconciliation of carrying amount

	Electronic equipment RMB'000	Office furniture RMB'000	Improvement to leasehold property RMB'000	Properties leased for own use carried at cost (Note) RMB'000	Total RMB'000
Cost:					
At 1 January 2018	2,608	840	5,491	—	8,939
Additions	989	192	1,569	—	2,750
At 31 December 2018	3,597	1,032	7,060	—	11,689
Impact on initial application of HKFRS 16 (Note)	—	—	—	33,918	33,918
At 1 January 2019	**3,597**	**1,032**	**7,060**	**33,918**	**45,607**
Additions	**488**	**50**	**7,367**	**15,386**	**23,291**
At 31 December 2019	**4,085**	**1,082**	**14,427**	**49,304**	**68,898**
Accumulated depreciation:					
At 1 January 2018	(867)	(398)	(3,116)	—	(4,381)
Charge for the year	(575)	(159)	(1,461)	—	(2,195)
At 31 December 2018	(1,442)	(557)	(4,577)	—	(6,576)
Impact on initial application of HKFRS 16 (Note)	—	—	—	(10,618)	(10,618)
At 1 January 2019	**(1,442)**	**(557)**	**(4,577)**	**(10,618)**	**(17,194)**
Charge for the year	**(734)**	**(199)**	**(1,630)**	**(8,609)**	**(11,172)**
At 31 December 2019	**(2,176)**	**(756)**	**(6,207)**	**(19,227)**	**(28,366)**
Net book value:					
At 31 December 2019	**1,909**	**326**	**8,220**	**30,077**	**40,532**
At 31 December 2018	2,155	475	2,483	—	5,113

Note: The Company has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See Note 1(c).

(Express in thousands of Renminbi, unless otherwise stated)

15 PROPERTY AND EQUIPMENT

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2019 RMB'000	1 January 2019 (Note) RMB'000
Properties leased for own use carried at cost	**30,077**	23,300

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 (Note) RMB'000
Depreciation charge of right-of-use assets	**8,609**	–
Finance cost (Note 6(c))	**1,633**	–
Expense relating to short-term leases	**345**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	12,928

Note: The Company has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Company as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 1(c).

During the year, additions to right-of-use assets were RMB15,386 thousands. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of the maturity analysis of lease liabilities are set out in Note 21.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

16 INTANGIBLE ASSETS

	Computer software RMB'000
Cost:	
At 1 January 2018	26,695
Additions	3,490
At 31 December 2018	30,185
Additions	7,643
At 31 December 2019	**37,828**
Accumulated amortisation:	
At 1 January 2018	(9,282)
Charge for the year	(5,546)
At 31 December 2018	(14,828)
Charge for the year	(6,488)
At 31 December 2019	**(21,316)**
Net book value:	
At 31 December 2019	**16,512**
At 31 December 2018	15,357

17 OTHER ASSETS

	Note	2019 RMB'000	2018 RMB'000
Interest receivables		**7,300**	35,607
Other receivables	(a)	**12,570**	22,577
Prepayments		**3,845**	3,719
IPO service fees		**—**	30,640
Others		**275**	14
Total		**23,990**	92,557

(a) Other receivables

	2019 RMB'000	2018 RMB'000
Commission receivables of joint loans	**9,255**	16,073
Deposits	**3,315**	4,806
Consulting fees	**—**	1,698
Total	**12,570**	22,577

(Express in thousands of Renminbi, unless otherwise stated)

18 PLACEMENTS FROM BANKS

	2019 RMB'000	2018 RMB'000
Placements from banks	**5,848,488**	6,085,347
Accrued interest	**42,933**	—
Total	**5,891,421**	6,085,347

19 GUARANTEE DEPOSITS

	2019 RMB'000	2018 RMB'000
Deposits provided by dealers for dealer's loans	**135,585**	56,047
Deposits from finance lease clients	**15,005**	16,693
Deposits provided by dealers for retail business	**6,255**	6,892
Total	**156,845**	79,632

20 DEPOSITS FROM SHAREHOLDERS

	2019 RMB'000	2018 RMB'000
Deposits from shareholders	**—**	600,000

The deposits from shareholders carried a fixed interest rate at 1.10% per annum and the term of the deposits was 3 months. As at 31 December 2019, all the deposits from shareholders were settled.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

21 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Company's lease liabilities at the end of the current reporting period and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year (inclusive)	**8,982**	**10,887**	6,512	7,925
After 1 year but within 2 years (inclusive)	**9,775**	**11,053**	4,152	5,249
After 2 years but within 3 years (inclusive)	**9,419**	**10,023**	4,615	5,415
More than 3 years	**4,212**	**4,332**	9,241	9,834
	23,406	**25,408**	18,008	20,498
	32,388	**36,295**	24,520	28,423
Less: total future interest expenses		**(3,907)**		(3,903)
Present value of lease liabilities		**32,388**		24,520

Note: The Company has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in Note 1(c).

(Express in thousands of Renminbi, unless otherwise stated)

22 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

	Note	2019 RMB'000	2018 RMB'000
Balance at the beginning of the year		**59,478**	76,884
Provision for current income tax for the year	7(a)	**111,121**	152,752
Payment during the year		**(99,638)**	(170,158)
Balance at the end of the year		**70,961**	59,478

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets/(liabilities) recognised in the statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	**Allowances for impairment losses** RMB'000	**Subsidies for retail loans** RMB'000	**Depreciation charge of right-of-use assets** RMB'000	**Total** RMB'000
Balance at 1 January 2018	9,821	62,193	—	72,014
Charged/(credited) to profit or loss	5,348	(3,558)	—	1,790
Balance at 31 December 2018	15,169	58,635	—	73,804
Adoption of HKFRS 16 (Note 1(c))	—	—	305	305
Adjusted balance at 1 January 2019	**15,169**	**58,635**	**305**	**74,109**
Charged/(credited) to profit or loss	**10,351**	**(29,881)**	**273**	**(19,257)**
Balance at 31 December 2019	**25,520**	**28,754**	**578**	**54,852**

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

23 OTHER LIABILITIES

	Note	2019 RMB'000	2018 RMB'000
Other payables	(a)	165,881	141,648
Advance receipts		972	33,648
Interest payable		—	49,315
Total		166,853	224,611

(a) Other payables

	2019 RMB'000	2018 RMB'000
Payables of joint loans	76,133	77,294
IPO service fees payable	32,962	29,971
Accruals	14,155	5,083
Tax and surcharges and other taxation payable	12,707	17,064
Employee benefits payables	12,569	10,609
Brokerage fees payable	12,281	—
Others	5,074	1,627
Total	165,881	141,648

24 CAPITAL AND RESERVES

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Company's equity is set out in the statement of changes in equity.

(b) Dividends

Dividends paid to equity shareholders of the Company attributable to the year:

	2019 RMB'000	2018 RMB'000
Interim dividend declared and paid of RMB0.08 per share (2018: Nil)	171,172	—

24 CAPITAL AND RESERVES (CONTINUED)

(c) Share capital

On 3 April 2019, the H-shares of the Company were listed on the Main Board of the HKSE, pursuant to which 533,336 thousands ordinary shares of RMB1.00 each were issued at the price of HK$3.06 per share by the Company. The gross proceeds from the issue of these H-shares amounted to HK$1,632,008 thousands (equivalent to approximately RMB1,397,081 thousands). The premium arising from the issuance of H-shares upon public offering amounted to RMB760,080 thousands was recorded in capital reserve.

On 25 April 2019, the over-allotment option granted by the Company was partially exercised, pursuant to which 6,315 thousands ordinary shares of RMB1.00 each were issued at the price of HK$3.06 per share by the Company. The gross proceeds from the issue of these shares amounted to HK$19,325 thousands (equivalent to approximately RMB16,589 thousands). The premium arising from the issuance of shares upon over-allotment amounted to RMB9,437 thousands was recorded in capital reserve.

(d) Nature and purpose of reserves

(i) Capital reserve

On 3 April 2019, the Company issued 533,336 thousands new H-shares by way of initial public offering ("IPO"). On 25 April 2019, the Company issued 6,315 thousands new H-shares by way of over-allotment. The premium arising from the issuance of H-shares upon public offering and over-allotment amounted to RMB760,080 thousands and RMB9,437 thousands, respectively, was recorded in capital reserve.

(ii) Surplus reserve

The surplus reserve represents statutory surplus reserve fund. Pursuant to the Company Law of the PRC and the Article of Association of the Company, the Company is required to appropriate 10% of its net profit as on an annual basis determined under PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

Subject to the approval of equity holders of the entities established in the PRC, statutory surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders. Subject to the approval of shareholders, discretionary surplus reserve may be used to offset previous years' losses, if any, and may be converted into capital.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

24 CAPITAL AND RESERVES (CONTINUED)

(d) Nature and purpose of reserves (continued)

(iii) General risk reserve

Pursuant to "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance ("MOF"), the Company is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The general risk reserve balance of the Company as at 31 December 2019 amounted to RMB 156,047 thousands, which has reached the requirement.

(e) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns and benefits for shareholders, by pricing services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher risk levels of borrowings and the advantages and stability resulted from a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Company's approach to capital management during the year.

The Company calculates the capital adequacy ratios as at 31 December 2019 and 31 December 2018 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the former China Banking Regulatory Commission (the "CBRC") in 2012 and relevant requirements promulgated by the China Banking and Insurance Regulatory Commission (the "CBIRC") as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Core tier-one capital		
— Share capital	**2,139,651**	1,600,000
— Capital reserve	**1,173,857**	404,340
— Surplus reserve	**84,192**	45,252
— General risk reserve	**156,047**	107,041
— Retained earnings	**455,828**	326,460
Total core tier-one capital	**4,009,575**	2,483,093
Core tier-one capital deductions		
— Net value of intangible asset after deduction of related deferred income tax liabilities	**(16,512)**	(15,357)
Net core tier-one capital	**3,993,063**	2,467,736

(Express in thousands of Renminbi, unless otherwise stated)

24 CAPITAL AND RESERVES (CONTINUED)

(e) Capital management (continued)

	31 December 2019 RMB'000	31 December 2018 RMB'000
Net tier-one capital	3,993,063	2,467,736
Tier-two capital		
— Surplus provision for loan impairment	105,563	88,561
Net tier-two capital	105,563	88,561
Net capital base	4,098,626	2,556,297
Credit risk-weighted assets	8,550,586	7,173,419
Operational risk-weighted assets	1,297,962	1,003,235
Total risk-weighted assets	9,848,548	8,176,654
Core tier-one capital adequacy ratio	40.54%	30.18%
Tier-one capital adequacy ratio	40.54%	30.18%
Capital adequacy ratio	41.62%	31.26%

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

25 NOTES TO CASH FLOW STATEMENTS

(a) Cash and cash equivalents comprise

	Note	2019 RMB'000	2018 RMB'000
Deposit reserves with central bank	11	**50**	20,037
Deposits with banks within original maturity of three months or less		**116,469**	780,960
Cash and cash equivalents in the cash flow statements		**116,519**	800,997

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Company's cash flow statement as cash flows from financing activities.

	IPO service fees payable (Note 23(a)) RMB'000	Lease liabilities (Note 21) RMB'000	Total RMB'000
At 31 December 2018	29,971	—	29,971
Impact on initial application of HKFRS 16	—	24,520	24,520
At 1 January 2019	29,971	24,520	54,491
Changes from financing cash flows:			
Capital element of finance lease rentals paid	—	(7,518)	(7,518)
Interest element of finance lease rentals paid	—	(1,633)	(1,633)
Payments for listing expenses	(80,078)	—	(80,078)
Total changes from financing cash flows	(80,078)	(9,151)	(89,229)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	—	15,386	15,386
Finance cost (Note 6(c))	—	1,633	1,633
Capitalised listing expenses	73,862	—	73,862
Expensed listing expenses	9,207	—	9,207
Total other changes	83,069	17,019	100,088
At 31 December 2019	32,962	32,388	65,350

(Express in thousands of Renminbi, unless otherwise stated)

25 NOTES TO CASH FLOW STATEMENTS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (continued)

	IPO service fees payable (Note 23(a)) RMB'000
At 1 January 2018	—
Changes from financing cash flows:	
Payments for listing expenses	(2,937)
Total changes from financing cash flows	(2,937)
Other changes:	
Capitalised listing expenses	30,640
Expensed listing expenses	2,268
Total other changes	32,908
At 31 December 2018	29,971

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, currency and operational risks arises in the normal course of the Company's business. The Company's exposure to these risks and the financial risk management policies and practice used by the Company to manage these risks are described below.

(a) Credit risk

(i) Management of credit risk

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations or commitment to the Company provided. It arises primarily from the Company's auto retail and dealer's loan credit business and finance lease business.

In accordance with the requirements of external regulatory and related system, the Company has formulated operation rules of credit risk grading, credit risk operation, credit business approval, interview and collection for loans and advances to customers and finance lease receivables according to credit risk management. The work of Company's credit risk management runs through all aspects of pre credit investigation, credit business approval and post-credit management sessions. During the pre-credit investigation session, the Company will carry out a credit background survey of the borrower. During the approval session, all the credit business must be approved by the corresponding approver. During the post-credit management session, the Company will continue to monitor all the loans and advances to customers and finance lease receivables and take corresponding measures for any negative events that may affect the borrower's repayment ability in order to prevent and control the risk.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. At the end of each reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

In order to minimize credit risk, the Company has tasked its risk management department to develop and maintain the Company's financial assets credit risk grading to categorize exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the risk management department uses other publicly available financial information and the Company's own trading records to rate its counterparties. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

(Express in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

(ii) Assessing credit risk of financial assets

The Company adopts the Five-tier risk classification approach to manage its credit risk arising from loans and advances to customers and finance lease receivables. They are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk.

After adopting HKFR 9 at 1 January 2018, the Company's current credit risk grading framework in respect of financial assets also comprises the following categories:

Category	Description	Basis of recognizing ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL for not credit-impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL for credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off

For the year ended 31 December 2019, the Company has written off loans and advances to customers of RMB66,750 thousands (31 December 2018: RMB36,364 thousands) and finance lease receivables of RMB3,244 thousands (31 December 2018: Nil) as the Company had identified these debtors have financial difficulties.

For other receivables, the Company has applied the simplified approach in HKFRS 9 to measure them. Other receivables mainly consist of commission receivables of joint loans, deposits and consulting fees receivables, which are not considered meaningful due to the insignificant credit risk.

For deposits with banks, loans and advances to customers and interest receivables, the Company has identified multiple economic scenarios to consider the risk or probability that a credit loss occurs by weighting these different scenarios. Different economic scenarios will lead to a different probability of default.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

(ii) Assessing credit risk of financial assets (continued)

The following table provides information about the Company's exposure to credit risk and ECLs for loans and advances to customers and finance lease receivables based on the Company's provision matrix. As the Company's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Company's different customer bases.

	31 December 2019				
	Loans and advances to customers		Finance lease receivables		Total
	RMB'000	Provision ratio (%)	RMB'000	Provision ratio (%)	RMB'000
Gross balance are assessed for 12-month ECL					
— Neither overdue nor credit-impaired (including accrued interest)	10,072,109		49,394		10,121,503
Allowances for impairment losses	(112,932)		(388)		(113,320)
Net balance	9,959,177	1.12%	49,006	0.79%	10,008,183
Gross balance are not credit-impaired and assessed for lifetime ECL					
— Overdue but not credit-impaired	77,938		3,241		81,179
— Neither overdue nor credit-impaired (including accrued interest)	237		—		237
Sub-total	78,175		3,241		81,416
Allowances for impairment losses	(38,459)		(795)		(39,254)
Net balance	39,716	49.20%	2,446	24.53%	42,162

(Express in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

(ii) Assessing credit risk of financial assets (continued)

	31 December 2019				
	Loans and advances to customers		Finance lease receivables		Total
	RMB'000	Provision ratio (%)	RMB'000	Provision ratio (%)	RMB'000
Gross balance are credit-impaired and assessed for lifetime ECL					
— Overdue and credit-impaired	45,233		4,499		49,732
Allowances for impairment losses	(39,973)		(3,950)		(43,923)
Net balance	5,260	88.37%	549	87.79%	5,809
Book value	10,004,153		52,001		10,056,154

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

(ii) Assessing credit risk of financial assets (continued)

	31 December 2018				
	Loans and advances to customers		Finance lease receivables		Total
	RMB'000	Provision ratio (%)	RMB'000	Provision ratio (%)	RMB'000
Gross balance are assessed for 12-month ECL					
— Neither overdue nor credit-impaired	8,457,202		85,464		8,542,666
Allowances for impairment losses	(89,071)	1.05%	(644)	0.75%	(89,715)
Net balance	8,368,131		84,820		8,452,951
Gross balance are not credit-impaired and assessed for lifetime ECL					
— Overdue but not credit-impaired	81,201		6,434		87,635
— Neither overdue nor credit-impaired	156		15,016		15,172
Sub-total	81,357		21,450		102,807
Allowances for impairment losses	(26,522)	32.60%	(4,159)	19.39%	(30,681)
Net balance	54,835		17,291		72,126
Gross balance are credit-impaired and assessed for lifetime ECL					
— Overdue and credit-impaired	23,597		7,529		31,126
Allowances for impairment losses	(20,386)	86.39%	(6,660)	88.46%	(27,046)
Net balance	3,211		869		4,080
Book value	8,426,177		102,980		8,529,157

(Express in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

The Company aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Company is to regularly monitor the Company's liquidity risk and maintain adequate cash and cash equivalents to meet the Company's liquidity requirements.

Currently, the Company's main sources of funds are paid-in capital, placements from banks and the principal and interest charged by the loan service. Under the circumstance of insufficient source of capital cash, principal and interest received by loan service, the main method to supply liquidity is placements from banks. The funds are mostly used to disburse loans and to maintain daily operations of the Company. The use of funds also includes repayment of placements from banks and related interest expenses.

The following tables provide an analysis of the remaining contractual maturities, which are based on contractual undiscounted cash flows of the financial assets and liabilities of the Company at the end of the reporting periods.

	31 December 2019						
	Repayable on demand/ terms undated RMB'000	Within one month RMB'000	Between one month and three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets							
Cash and deposits with central bank	9,479	—	—	—	—	9,479	9,479
Deposits with banks	86,523	30,004	—	10,172	—	126,699	126,524
Loans and advances to customers	44,953	938,229	2,284,993	3,716,099	3,974,455	10,958,729	10,004,153
Finance lease receivables	3,475	3,241	6,482	29,168	13,078	55,444	52,001
Other assets	19,870	—	—	—	—	19,870	19,870
Total	164,300	971,474	2,291,475	3,755,439	3,987,533	11,170,221	10,212,027
Liabilities							
Placements from banks	—	(761,987)	(1,722,338)	(3,456,366)	—	(5,940,691)	(5,891,421)
Guarantee deposits	(141,840)	—	—	(2,537)	(12,468)	(156,845)	(156,845)
Lease liabilities	—	(907)	(1,815)	(8,165)	(25,408)	(36,295)	(32,388)
Other liabilities	(77,041)	(18,421)	(8,370)	(28,370)	(20,972)	(153,174)	(153,174)
Total	(218,881)	(781,315)	(1,732,523)	(3,495,438)	(58,848)	(6,287,005)	(6,233,828)
Net position	(54,581)	190,159	558,952	260,001	3,928,685	4,883,216	3,978,199

NOTES TO THE FINANCIAL STATEMENTS

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26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

	31 December 2018						
	Repayable on demand/ terms undated RMB'000	Within one month RMB'000	Between one month and three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets							
Cash and deposits with central bank	35,213	—	—	—	—	35,213	35,213
Deposits with banks	780,960	—	—	—	—	780,960	780,960
Loans and advances to customers	57,932	370,399	1,011,764	3,793,345	4,164,732	9,398,172	8,426,177
Finance lease receivables	7,758	4,114	8,230	37,034	57,688	114,824	102,980
Other assets	22,791	35,393	—	—	—	58,184	58,184
Total	904,654	409,906	1,019,994	3,830,379	4,222,420	10,387,353	9,403,514
Liabilities							
Placements from banks	—	(121,911)	(1,666,942)	(4,136,881)	(378,319)	(6,304,053)	(6,085,347)
Guarantee deposits	(62,939)	—	—	—	(16,693)	(79,632)	(79,632)
Deposits from shareholders	—	(568)	(600,990)	—	—	(601,558)	(600,000)
Other liabilities	(124,584)	(9,097)	(26,497)	(13,721)	—	(173,899)	(173,899)
Total	(187,523)	(131,576)	(2,294,429)	(4,150,602)	(395,012)	(7,159,142)	(6,938,878)
Net position	717,131	278,330	(1,274,435)	(320,223)	3,827,408	3,228,211	2,464,636

(c) Interest rate risk

The interest rate risk of the Company mainly comes from credit business and inter-bank borrowings. The interest-bearing financial instruments of fixed rate and variable rate make the Company face fair value interest rate risk and cash flow interest rate risk, respectively. The Company's risk management committee reviews and supervises market operational risks.

(Express in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (continued)

(i) Interest rate profile

The following table details the interest rate profile of the Company's assets and liabilities as at the end of the reporting period.

	31 December 2019 Effective interest rate %	31 December 2019 Amount RMB'000	31 December 2018 Effective interest rate %	31 December 2018 Amount RMB'000
Fixed interest rate:				
Financial assets				
Loans and advances to customers	7.60%–15.48%	10,004,153	7.60%–15.48%	8,426,177
Finance lease receivables	7.86%–18.71%	52,001	7.86%–18.71%	102,980
Total		10,056,154		8,529,157
Financial liabilities				
Placements from banks and other financial institutions	5.00%–8.00%	(5,891,421)	5.00%–8.50%	(6,085,347)
Deposits from shareholders	N/A	–	1.10%	(600,000)
Total		(5,891,421)		(6,685,347)
Net position		4,164,733		1,843,810

	31 December 2019 Effective interest rate %	31 December 2019 Amount RMB'000	31 December 2018 Effective interest rate %	31 December 2018 Amount RMB'000
Variable interest rate:				
Financial assets				
Cash and deposits with central bank	0.72%–1.62%	9,479	0.72%–1.62%	35,213
Deposits with banks	0.01%–2.17%	126,524	0.30%–2.50%	780,960
Total		136,003		816,173

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

— Fair value interest rate risk

The Company does not held any interest-bearing financial instruments of fixed interest measured at fair value, so the increase or decrease of interest rate would not influence the Company's profit after tax and equity through the change of fair value.

— Cash flow interest rate risk

	31 December 2019 RMB'000	31 December 2018 RMB'000
Increase/(decrease) in profit after tax and retained profits		
Interest rates increase by 100 bps	**893**	7,142
Interest rates decrease by 100 bps	**(892)**	(7,092)

The sensitivity analysis above is based on a static interest risk exposure profile of assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how profit after tax and equity would have been affected by repricing of the Company's assets and liabilities within the one-year period. The analysis does not take into account the effect of (i) the twisted shift in the yield curve with the changes in interest rates; (ii) risk management measures taken by the management. The analysis is also based on the assumption that there are no other changes to the portfolio and all positions will be retained and rolled over upon maturity.

(d) Currency risk

The Company's functional currency is RMB. Except for the deposits with banks and other financial institutions, which includes the proceeds from issuance of shares upon H-shares offering, there is no material currency risk for the Company as the majority of the business activities are within mainland China and settle in RMB. The currency giving rise to this risk is primarily Hong Kong Dollars (HKD). As most of the proceeds from issuance of shares upon public offering and over-allotment are converted into RMB by the Company during the reporting period and the remaining proceeds will be used to develop the Company's loan business, the currency risk is assessed to be low.

(Express in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (continued)

(i) Exposure to currency risk

	Exposure to foreign currencies (expressed in RMB thousand)			
	As at 31 December 2019		As at 31 December 2018	
	USD	**HKD**	USD	HKD
Deposits with banks	**56**	**32,878**	—	—
Other liabilities	**—**	**(45,243)**	—	—
Net position	**56**	**(12,365)**	—	—

(ii) Sensitivity analysis

The following table indicates the instantaneous changes in the Company's profit after tax and equity that would arise if foreign exchange rates to which the Company has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	31 December 2019 RMB'000	31 December 2018 RMB'000
Changes in profit after tax and equity		
Foreign exchange rate increase by 100 bps	**(92)**	—
Foreign exchange rate decrease by 100 bps	**92**	—

The foreign exchange sensitivity is the gain or loss recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB on the closing rate of reporting date.

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the Company's profit after tax and equity measured in the respective foreign currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks arise from all of the Company's operations.

The Company has set a series of policies and procedures in the context of internal control measures to identify, evaluate, control, manage and report operational risk. This mechanism involves all the business aspects, hence the Company could identify all inherent operational risk of activities, processes and systems.

(f) Fair value

The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

— Level 3 valuations: Fair value measured using significant unobservable inputs.

At the end of the reporting period, the Company has no financial assets and liabilities measured at fair value and the carrying amounts of the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values.

(Express in thousands of Renminbi, unless otherwise stated)

27 COMMITMENTS

(a) Operating lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	31 December 2018 RMB'000
Within 1 year (inclusive)	7,925
After 1 year but within 2 years (inclusive)	5,249
After 2 years but within 3 years (inclusive)	5,415
After 3 years	9,834
	28,423

The Company is the lessee in respect of a number of properties and items of buildings, automobile, and green plant held under operating leases which were previously classified as operating leases under HKAS 17. The Company has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Company adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 1(c), and the details regarding the Company's future lease payments are disclosed in Note 21.

(b) Capital commitments

At 31 December, the Company's authorised capital commitments are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Contracted but not paid for	**–**	32

28 MATERIAL RELATED PARTY TRANSACTIONS

The following significant transactions were carried out between the Company and its related parties during the reporting period. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Company and the respective related parties.

(a) Names and relationships with related parties

The following companies are related parties of the Company that had balances and/or transactions with the Company during the reporting period.

Company	Relationship
China ZhengTong Auto Services Holding Limited	Parent Company
Baoding Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Baotou Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Baotou Zhongrui Automobile Sales Service Co., Ltd.	Fellow subsidiary
Baotou Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Beijing Baozehang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Beijing Dewanlong Trading Co., Ltd.	Fellow subsidiary
Beijing BWWR Automobile Sales Services Co., Ltd.	Fellow subsidiary
Beijing SCAS North China Automobile Services Co., Ltd.	Fellow subsidiary
Beijing SCAS Zhongguan Automobile Sales Co., Ltd.	Fellow subsidiary
Beijing Zhengtong Baozehang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Beijing Zhengtong Dingwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Changsha Ruibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Chengdu Qibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Chenzhou Ruibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Dingze Insurance Agency Co., Ltd.	Fellow subsidiary
Dongguan Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Dongguan Jieyunhang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Dongguan Liaobu SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Dongguan Zhengtong Kaidi Automobile Sales Services Co., Ltd.	Fellow subsidiary
Dongguan SCAS Automobile Sales Service Co., Ltd	Fellow subsidiary
Foshan Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Foshan Dingbaohang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Foshan Baoyunhang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Foshan Zheng Tong Zhong Rui Automobile Sales Services Co., Ltd.	Fellow subsidiary
Fujian SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Fuzhou Dingwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Ganzhou Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Guangdong SCAS Shengwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Guangdong SAIC Southern Automobile Sales Service Co., Ltd.	Fellow subsidiary
Guangzhoushi Hengyuehang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Guangzhou Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hainan SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Henan Jintangsheng Automobile Co., Ltd.	Fellow subsidiary

28 MATERIAL RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties (continued)

Company	Relationship
Hengyang Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hunan SCAS Xingsha Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hubei Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hubei Bocheng Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hubei Dingjie Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hubei Jierui Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hubei Xinrui Automobile Sales Services Co., Ltd.	Fellow subsidiary
Huhhot Jieyun Automobile Sales Services Co., Ltd.	Fellow subsidiary
Huhhot Qibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hunan SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Inner Mongolia Dingze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Inner Mongolia Dingjie Automobile Trading Co., Ltd.	Fellow subsidiary
Jiangxi Deao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Jiangxi Zhengtong Zetian Automobile Sales Services Co., Ltd.	Fellow subsidiary
Jieyang Dingjie Automobile Sales Services Co., Ltd.	Fellow subsidiary
Jieyang Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Jingmen Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Langfangshi Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Nanchang Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Qingdao Huacheng Automobile Services Co., Ltd.	Fellow subsidiary
Qingdao Aoze Automobile Sales Service Co., Ltd.	Fellow subsidiary
Qingyuan Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Qingyuan SCAS Hezhong Automobile Sales Services Co., Ltd.	Fellow subsidiary
Qingyuan SCAS Toyota Motor Sales Services Co., Ltd.	Fellow subsidiary
Shantou Hongxiang Materials Co., Ltd.	Fellow subsidiary
Shantou Lujie Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shanghai Aohui Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shanghai Luda Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shanghai Shenxie Automobile Trading Co., Ltd.	Fellow subsidiary
Shanghai Qize Automobile Sales Service Co., Ltd.	Fellow subsidiary
Shanghai Qibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shangrao Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shangrao Luze Automobile Sales Service Co., Ltd.	Fellow subsidiary
Shantou Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen Dingwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen Hengshuo Advisory Services Co., Ltd.	Fellow subsidiary
Shenzhen SCAS Tenglong Automobile Sales Services Co., Ltd.	Fellow subsidiary

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

28 MATERIAL RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties (continued)

Company	Relationship
Shenzhen SCAS Infiniti Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen SCAS Electric Machinery Co., Ltd.	Fellow subsidiary
Shengzhou Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhenshi SCAS Huawo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Tianjin SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Tianjin Automobile Industry SCAS Sales Co., Ltd.	Fellow subsidiary
Weihai Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Zhengtong United Industrial Investment Group Co., Ltd.	Fellow subsidiary
Wuhan Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Kaitai Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Shengze Jietong Logistics Co., Ltd.	Fellow subsidiary
Xiangtan Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Xiangyang Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Yichang Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Yichun Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhanjiang Zhengtong Kaidi Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhengzhou Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhengzhou Dingwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhongshan SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhuhai Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhuhai SCAS Jielu Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhuhai SCAS Automobile Sales Service Co., Ltd.	Fellow subsidiary

(b) Significant transactions with related parties

In the opinion of the executive directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Company and the respective parties.

	Note	2019 RMB'000	2018 RMB'000
Subsidies receipt for retail loans	(i)	**68,313**	240,921
Interest income	(i)	**287,552**	271,426
Interest expenses		**(133)**	(5,255)
Operating expenses		**(283)**	(261)
Additions of deposits from shareholders		**362,280**	3,584,000
Decrease of deposits from shareholders		**(962,280)**	(2,984,000)

(i) Subsidies receipt for retail loans included subsidies received from the automaker which are settled through related parties pursuant to the pass-through arrangement. Interest income included the subsidies amortised to the income statement during the reporting period.

(Express in thousands of Renminbi, unless otherwise stated)

28 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties

As at the end of the reporting period, the Company had the following balances with related parties:

	Note	31 December 2019 RMB'000	31 December 2018 RMB'000
Assets			
Dealer's loans (including accrued interest)		**1,497,265**	683,069
Retail loans		**—**	13,230
Subsidies for retail loans	(i)	**(80,656)**	(184,014)
Mortgage service fees	(i)	**1,559**	7,027
Other assets		**345**	2,134
Liabilities			
Guarantee deposits		**75,000**	44,128
Deposits from shareholders		**—**	600,000
Other liabilities		**1,073**	1,133
Off-balance sheet items			
Guarantees received for dealer's loans	(ii)	**1,497,265**	683,069
Guarantees received for placements from banks	(iii)	**—**	1,765,000

(i) The subsidies for retail loans and mortgage service fees are initially recognised in loans and receivables at amortised method.

(ii) The guarantees were provided by fellow subsidiaries of the Company for repayment of dealer's loans. These guarantees expire on the same date as the related loans.

(iii) The guarantees were provided by the parent company and fellow subsidiaries of the Company, and will expire by the earlier of the listing date or when the related placements from banks mature and repayable.

All balances with related parties are related to main business of the Company except for other liabilities due to fellow subsidiaries amounting to RMB1,073 thousands and RMB1,004 thousands as of 31 December 2019 and 31 December 2018, respectively.

(d) Directors and key management personnel remuneration

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors as disclosed in Note 8 and certain of individuals with highest emoluments as disclosed in Note 9, is as follows:

	2019 RMB'000	2018 RMB'000
Remuneration of key management personnel	**8,855**	8,454

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

29 SEGMENT REPORTING

(a) Business segment

The Company manages its businesses by business segments. In a manner consistent with the way in which information is reported internally to the Company's most senior executive management for the purposes of resource allocation and performance assessment, the Company has presented the following reportable segments:

- Retail Business: this segment represents the Company's retail business provided to automotive end customers. The Company's retail business facilitates its customer's purchase of passenger vehicles. These products and services include direct loans where the Company issues automobile retail loans to customers with its own funding and charge interests on the loans, loan facilitation services, joint loan arrangement and direct lease services;
- Dealer's loan Business: This segment represents the Company's dealer's loans provided to automobile dealers to facilitate their purchase of vehicles and accessories; and
- Others: These represent any other business which cannot form a single reportable segment.

	Year ended 31 December 2019			
	Retail Business RMB'000	Dealer's loan Business RMB'000	Others RMB'000	Total RMB'000
Net interest income	427,885	94,295	13,620	535,800
Net fee and commission income	173,748	—	—	173,748
Other net income	—	—	90,270	90,270
Operating income	601,633	94,295	103,890	799,818
Operating expenses	(138,723)	(25,130)	—	(163,853)
Impairment losses	(101,156)	(13,397)	—	(114,553)
Finance costs	(1,382)	(251)	—	(1,633)
Profit before taxation	360,372	55,517	103,890	519,779
Other segment information				
— Depreciation and amortisation	14,951	2,709	—	17,660

	As at 31 December 2019			
	Retail Business RMB'000	Dealer's loan Business RMB'000	Others RMB'000	Total RMB'000
Reportable segment assets/total assets	7,419,766	2,653,217	255,060	10,328,043
Reportable segment liabilities/total liabilities	(4,894,400)	(1,203,270)	(220,798)	(6,318,468)

(Express in thousands of Renminbi, unless otherwise stated)

29 SEGMENT REPORTING (CONTINUED)

(a) Business segment (continued)

	Year ended 31 December 2018			
	Retail Business RMB'000	Dealer's loan Business RMB'000	Others RMB'000	Total RMB'000
Net interest income	414,272	20,402	3,876	438,550
Net fee and commission income	330,129	—	—	330,129
Other net income	—	—	47,098	47,098
Operating income	744,401	20,402	50,974	815,777
Operating expenses	(123,781)	(4,174)	—	(127,955)
Impairment losses	(85,678)	1,200	135	(84,343)
Profit before taxation	534,942	17,428	51,109	603,479
Other segment information				
— Depreciation and amortisation	7,489	252	—	7,741

	As at 31 December 2018			
	Retail Business RMB'000	Dealer's loan Business RMB'000	Others RMB'000	Total RMB'000
Reportable segment assets/total assets	7,694,478	887,843	949,840	9,532,161
Reportable segment liabilities/total liabilities	(6,466,839)	(459,649)	(122,580)	(7,049,068)

(b) Geographical information

Geographically, the Company conducts its business in the PRC. The non-current assets are located in the PRC as well.

(c) Information about major customers

During the reporting period, there was no revenue from transactions with a single external customer amounting to 10% or more of the Company's total revenue.

NOTES TO THE FINANCIAL STATEMENTS
(Express in thousands of Renminbi, unless otherwise stated)

30 CONTINGENCIES

The Company did not have any material contingent liabilities at the end of the reporting period.

31 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

Impact of novel coronavirus pandemic (COVID-19)

The wide spread of the novel coronavirus pandemic (COVID-19) has become a volatile and challenging situation confronted by all stakeholders of the society. After the reporting period, the outbreak of the coronavirus has been declared a pandemic by the World Health Organization. If the outbreak continues, it may impose negative impacts on the Company's results, including but not limited to the Company's interest, fee and commission income. As at the date of this report as the outbreak is still evolving, the Company considers that it is impracticable to estimate the financial impact to the Company. The Company will continue to assess the impact of the outbreak on the Company's operation and financial performance, and closely monitor the Company's exposure to the risks and uncertainties in connection with the outbreak.

Except for the above, the Company has no material events for disclosure subsequent to 31 December 2019 and up to the date of approval to the financial statements.

32 COMPARATIVE FIGURES

The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated and the cumulative effect of initially applying HKFRS 16 is recognised in retained earnings at the date of initial application. Further details of the changes in accounting policies are disclosed in Note 1(c).

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8, Definition of material	1 January 2020

The Company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

"Articles of Association"	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
"Audit Committee"	audit committee of the Board
"Board"	the board of Directors of the Company
"CBIRC"	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
"Company"	Shanghai Dongzheng Automotive Finance Co., Ltd*. (上海東正汽車金融股份有限公司), a joint stock company incorporated in the PRC with limited liability and whose H Shares are listed on the Stock Exchange (stock code: 2718)
"Company Law"	the Company Law of the PRC
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi
"Domestic Shareholder(s)"	holders of Domestic Shares
"H Share(s)"	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
"H Shareholder(s)"	holder(s) of H Shares
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing Date"	3 April 2019, the date when the Company was listed on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Nomination Committee"	nomination committee of the Board
"PRC" or "China"	the People's Republic of China, and for the purpose of this annual report only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Remuneration Committee"	remuneration and evaluation committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Risk Management Committee"	risk management committee of the Board

DEFINITIONS

"Securities Law"	the Securities Law of the PRC
"SFO"	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares in the share capital of the Company, including Domestic Shares, Unlisted Foreign Shares and H Shares
"Shareholder(s)"	the shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company
"Unlisted Foreign Share(s)"	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and held by persons other than PRC nationals or PRC-incorporated entities and are not listed on any stock exchange
"Unlisted Foreign Shareholder(s)"	holder(s) of Unlisted Foreign Shares
"ZhengTong"	China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司), a controlling shareholder of the Company, a company incorporated on 9 July 2010 as an exempted company with limited liability under the laws of the Cayman Islands and the shares of which are listed on the main board of the Stock Exchange (stock code: 1728)
"%"	per cent.

FOUR YEAR FINANCIAL SUMMARY

	Year ended 31 December			
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	**2019 (RMB'000)**
Interest income	280,340	424,600	759,035	**999,733**
Interest expenses	(121,148)	(169,768)	(320,485)	**(463,933)**
Net interest income	159,192	254,832	438,550	**535,800**
Fee and commission income	170,226	205,323	331,554	**174,956**
Fee and commission expenses	(912)	(905)	(1,425)	**(1,208)**
Net fee and commission income	169,314	204,418	330,129	**173,748**
Other net income	3,913	2,710	47,098	**90,270**
Operating income	332,419	461,960	815,777	**799,818**
Operating expenses	(67,879)	(70,042)	(127,955)	**(163,853)**
Impairment losses	(31,795)	(43,395)	(84,343)	**(114,553)**
Finance costs	—	—	—	**(1,633)**
Profit before taxation	232,745	348,523	603,479	**519,779**
Income tax	(58,260)	(87,750)	(150,962)	**(130,378)**
Profit and total comprehensive income for the year	174,485	260,773	452,517	**389,401**

FOUR YEAR FINANCIAL SUMMARY

	At 31 December			
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	**2019 (RMB'000)**
Cash and deposits with central bank	4,280	7,003	35,213	**9,479**
Deposits with banks and other financial institutions	239,879	270,494	780,960	**126,524**
Loans and advances to customers	3,736,577	5,869,004	8,426,177	**10,004,153**
Finance lease receivables	—	19,898	102,980	**52,001**
Property and equipment	5,874	4,558	5,113	**40,532**
Intangible assets	12,460	17,413	15,357	**16,512**
Deferred tax assets	20,587	62,193	73,804	**54,852**
Other assets	35,283	41,853	92,557	**23,990**
Total assets	4,054,940	6,292,416	9,532,161	**10,328,043**
Liabilities				
Placements from banks and other financial institutions	3,232,885	4,020,000	6,085,347	**5,891,421**
Guarantee deposits	27,642	78,894	79,632	**156,845**
Deposits from shareholders	—	—	600,000	**—**
Lease liabilities	—	—	—	**32,388**
Current taxation	54,392	76,884	59,478	**70,961**
Other liabilities	40,754	56,598	224,611	**166,853**
Total liabilities	3,355,673	4,232,376	7,049,068	**6,318,468**
NET ASSETS	699,267	2,060,040	2,483,093	**4,009,575**